

No. 91-971

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

v.

TACO CABANA INTERNATIONAL, INC., *et al.*,*Respondents.*

On Writ of Certiorari to the United States
Court of Appeals for the Fifth Circuit

JOINT APPENDIX**Volume I**

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**TACO CABANA INTERNATIONAL,
INC., Plaintiff-Appellee,**

v.

**TWO PESOS, INC.,
Defendant-Appellant.**

No. 89-2203.

**United States Court of Appeals
Fifth Circuit.**

June 11, 1991.

Action was brought for trade dress infringement and misappropriation of trade secrets in defendant's imitation of appearance and motif of plaintiff's Mexican restaurants. The United States District Court for the Southern District of Texas, John V. Singleton, Jr., J., entered judgment for plaintiff and defendant appealed. The Court of Appeals, Reavley, Circuit Judge, held that: (1) the embodiment of descriptive elements in trade dress did not disqualify it for inherent distinctiveness; (2) license of trade dress to another group of restaurants did not result in abandonment where licensor exercised adequate supervision and control over quality of licensee's goods and services; and (3) filing of architectural plans in order to obtain building permit did not eviscerate proprietary rights in trade secrets.

Affirmed.

1. Trade Regulation

Trade dress infringement is established by showing that: the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and that the dress has been infringed, which requires considering the likelihood of confusion. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

2. Trade Regulation

The "trade dress" of a product is essentially its total image and overall appearance. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

3. Trade Regulation

Competitor can use elements of merchant's trade dress, but merchant can protect combination of visual elements that, taken together, may create distinctive visual impression. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

4. Trade Regulation

Entrant into the Mexican fast-food market could not copy competitor's distinctive combination of layout and design features. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

5. Trade Regulation

While functional features cannot be given trade dress protection, a particular arbitrary combination of functional features, the

combination of which is not itself functional, properly enjoys protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

6. Trade Regulation

Finding of functionality can be found if protecting trade dress threatens to eliminate substantial swath of competitive alternatives in relevant market; design should be considered de jure functional if it is the best or one of the few superior designs available. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

7. Trade Regulation

Instruction in action for trade dress infringement with respect to Mexican restaurants that trade dress protection is denied where the particular combination "must be used by others in order to compete" did not mislead jury or prejudice defendant, where jury heard substantial evidence of alternative combinations that could be used to compete effectively, and record contained ample evidence that plaintiff's trade dress was, taken as a whole, nonfunctional. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

8. Trade Regulation

If mark or dress serves as symbol of origin it is considered distinctive and protectable, but if it is not deemed inherently or sufficiently distinctive, secondary meaning must be established. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

9. Trade Regulation

Instruction in action for infringement of trade dress sufficiently guided jury as to elements of inherent distinctiveness of plaintiff's dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

10. Trade Regulation

Infringement of trade dress for Mexican restaurant by competitor warranted redress even if plaintiff's trade dress was merely suggestive and weak. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

11. Trade Regulation

Trade dress for Mexican restaurant did not surrender possibility of inherent distinctiveness merely by embodying certain descriptive elements. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

12. Trade Regulation

A "naked license" to use the same trade dress signals involuntary abandonment and forfeits protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

13. Trade Regulation

Owner may license its trademark or trade dress and retain proprietary rights if owner maintains adequate control over quality of goods and services that licensee sells with the mark or

dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

14. Trade Regulation

Cross-license by which two brothers divided Mexican restaurants, one brother retaining the original name and the other adopting a new name, and allowing the two groups to use the same trade dress, did not result in forfeiture of protection of trade dress where the licensor exercised adequate supervision and control over licensee to ensure that quality of licensee's goods and services were not inferior to licensor's. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

15. Trade Regulation

Where circumstances of cross-license of trade dress for Mexican restaurants insured consistent quality, abandonment of trade dress would not be found simply for want of inspection and control formalities. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

16. Trade Regulation

Indicia of confusion in trade dress infringement action include type of trade dress at issue, similarity between trade dresses, similarity of products or services provided, whether plaintiff and defendant were in market competition for same customers, whether plaintiff and defendant were likely to use same advertising media, defendant's intent in its adoption of its trade dress, and instances of actual confusion; no single factor is necessarily dispositive and proof of actual confusion is not necessary. Lanham

Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

17. Trade Regulation

Appropriation of trade dress of Mexican restaurants by competitor created likelihood of confusion between unrelated entities and constituted unfair competition. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

18. Torts

Trade secret misappropriation in Texas requires existence of trade secret, breach of confidential relationship or improper discovery of trade secret, use of trade secret, and damages.

19. Torts

A "trade secret" under Texas law is any formula, pattern, device or compilation of information used in one's business, and which gives opportunity to obtain advantage over competitors who do not know or use it.

20. Torts

Architectural plans and kitchen layout and design drawings for restaurant may be trade secrets under Texas law.

21. Torts

Mexican restaurant's architectural plans and kitchen equipment layout and design did not lose status as trade secrets, under Texas law, by reason of disclosure of restaurant plans to contrac-

tors or by fact that competitor obtained architectural plans from municipality under the Texas Open Records Act. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

22. Torts

Fact that Mexican restaurant was required to file architectural plans to obtain building permit did not eviscerate its legitimate proprietary rights in the plans as trade secrets under Texas law. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

23. Torts

Evidence supported conclusion that Mexican restaurant appropriated trade secrets by using architectural plans of competitor in building its restaurants.

24. Trade Regulation

Recovery for infringement of trade dress may include economic benefits that normally would have been received by licensing. Lanham Trade-Mark Act §§ 35, 35(a), 43(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a), 1143(a).

25. Injunction

In fashioning relief against a party who has transgressed governing legal standards, court of equity is free to proscribe activities that, standing alone, would have been unassailable.

26. Trade Regulation

Remedy in action for infringement of trade dress for Mexican restaurant and for appropriation of trade secrets, requiring structural changes and corrective advertising, were not improperly punitive rather than compensatory. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

27. Trade Regulation

The "headstart" theory was appropriate framework for remedy for infringement of trade dress for Mexican restaurants by competitor that preempted various markets, and entitled plaintiff to recover for deprivation of benefits that would not accrued from licensing without proof of actual confusion or quantification of damages from diverted sales. Lanham Trade-Mark Act, § 35, 35(a), 43(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a), 1143(a).

28. Trade Regulation

The Lanham Act endows district court with considerable discretion in fashioning appropriate remedy for infringement. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

29. Trade Regulation

Enhancement of damages for trade dress infringement may be based on finding of willful infringement, but cannot be punitive. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

30. Trade Regulation

Doubling of jury award for infringement of trade dress, upon finding that infringer's conduct was willful and deliberate, was not abuse of discretion. Lanham Trade-Mark Act, §§ 35, 35(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a).

31. Trade Regulation

In reviewing award of attorney fees under the Lanham Act provision for fees in "exceptional case," court would not regiment discretion of district courts seeking equity by applying the same standard for enhancement of damages. Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

32. Trade Regulation

Award of attorney fees in action for infringement of trade dress for Mexican restaurants, involving brazen imitation and rapid market foreclosure, was not an abuse of discretion. Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

33. Damages

Trade-secret misappropriation damages typically embrace some form of royalty.

34. Damages

Award of \$150,000 for misappropriation of trade secrets of Mexican restaurants, involving sales in scores of millions and impressive profits, was not unreasonable.

Kimball J. Corson, Janet Napolitano, Lewis & Roca, Phoenix, Ariz., for defendant-appellant.

James B. Gambrell, Marc L. Delflache, Eugene R. Montalvo, Pravel, Gambrell, Hewitt, Kimball & Krieger, Houston, Tex., for plaintiff-appellee.

Appeal from the United States District Court for the Southern District of Texas.

Before REAVLEY, GARWOOD, and BARKSDALE, Circuit Judges.

REAVLEY, Circuit Judge:

Taco Cabana complained of the imitation of the appearance and motif of its Mexican restaurants by Two Pesos. Taco Cabana won a judgment for trade dress infringement under the Lanham Act and misappropriation of trade secrets under Texas law. Two Pesos appeals, claiming that Taco Cabana's trade dress is not protectable because the Mexican motif is not protectable, and that Taco Cabana surrendered any claim it had to Lanham Act protection by cross-licensing with another restaurant and retaining the same trade dress for two different restaurant names. Two Pesos also claims that it obtained the alleged trade secrets—architectural plans and kitchen equipment layout—in a lawful manner and cannot be guilty as a matter of law for trade secret misappropriation. We affirm.

BACKGROUND

Two brothers, Felix and Mike Stehling, opened the first Taco Cabana restaurant in San Antonio in September 1978, and opened five more restaurants in San Antonio by 1985. Taco Cabana describes its Mexican fast-food trade dress as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

In December 1985, Marno McDermott and Jim Blacketer opened Two Pesos in Houston. Two Pesos adopted a motif essentially consistent with the above description of Taco Cabana's trade dress,¹ and expanded rapidly in Houston and other markets in and out of Texas,² but did not enter San Antonio. In 1987, Taco Cabana sued Two Pesos for trade dress infringement under section 43(a) of the Lanham Act and for theft of trade secrets under Texas common law.

¹ Phil Romano, a restaurateur since 1965 who developed the successful Fuddruckers chain, testified that Taco Cabana and Two Pesos are "shaped the same. They look the same. When you're inside they feel the same. They have the same product."

² Between December 1985 and August 1988, Two Pesos opened 29 restaurants.

Six days before filing suit against Two Pesos, the Stehling brothers entered into a series of agreements dividing the Taco Cabana restaurants between themselves and going their separate ways. Felix Stehling retained the "Taco Cabana" name, and Michael Stehling adopted the name "TaCasita." The agreements allowed the two groups to use the same trade dress, though one provision required "reasonable efforts to modify their trade dress for their respective future restaurants sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind." The Stehlings have not altered their respective trade dresses. After filing suit, Taco Cabana expanded into several cities, including Houston and Dallas where Two Pesos was already doing business.

The jury found that: (1) Taco Cabana has a trade dress; (2) Taco Cabana's dress, taken as a whole, is non-functional; (3) the dress is inherently distinctive; (4) the dress has not acquired secondary meaning in the Texas market; (5) customers might likely associate or confuse a Taco Cabana restaurant with a Two Pesos restaurant; (6) Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's; and (7) Taco Cabana was damaged by the trade dress infringement. The jury awarded \$306,000 for lost profits, \$628,300 for lost income, and \$0 for loss of good will. The district court doubled the damages for trade dress infringement (bringing the total to \$1,868,600), awarded attorneys fees of \$937,550, and ordered Two Pesos to make several changes in its restaurant design.

Taco Cabana also claimed misappropriation of the following trade secrets: (1) certain architectural drawings; (2) its kitchen equipment layout and design; and (3) its kitchen and restaurant operating procedures. The jury found that Two Pesos misap-

propriated the architectural drawings and the kitchen equipment layout and design, but not the operating procedures. The jury awarded \$150,000 for the misappropriation. The district court entered judgment on the jury's verdict, and denied Two Pesos' motions for judgment n.o.v. and for a new trial. Two Pesos appeals.

DISCUSSION

I. Trade Dress Infringement

[1, 2] Trade dress infringement is established by showing that: (1) the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and (2) that the dress has been infringed, which requires considering the likelihood of confusion. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 425 (5th Cir. 1984).

A. The Threshold "Concept" Dispute.

The district court instructed the jury that:

"trade dress" is the total image of the business. Taco Cabana's trade dress may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniform and other features reflecting the total image of the restaurant.

See Blue Bell Bio-Medical v. Cin-Bad, Inc., 864 F.2d 1253, 1256 (5th Cir. 1989) ("The 'trade dress' of a product is essentially its total image and overall appearance.").

Two Pesos argues that protectable trade dress is much narrower than "total image." The combined effect, Two Pesos argues, of Taco Cabana's consistent reference to "concept" and the district court's "total image" instruction was to mislead the jury into believing that Taco Cabana had a right to preclude competitors from using a Mexican theme for a Mexican restaurant.³ Taco Cabana cannot preclude Two Pesos or anyone from entering the upscale Mexican fast-food market. But the jury was not misled into protecting such an abstract level of Taco Cabana's trade dress.

[3, 4] A competitor can use elements of Taco Cabana's trade dress,⁴ but Taco Cabana "can protect a combination of visual elements 'that, taken together, ... may create a distinctive visual impression.'" *Fuddrucker's, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 842-43 (9th Cir. 1987), quoting *Falcon Rice Mill v. Community Rice Mill*, 725 F.2d 336, 346 (5th Cir. 1984). Two Pesos may enter

³ See *Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986) ("[T]he district court committed error by including Prufrock's core concept in its definition of Prufrock's trade dress. Prufrock simply cannot preclude [defendant] from entering the 'down home country cooking' restaurant business.").

⁴ See *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 703 (5th Cir. Unit A 1981) (protecting "combination of particular hues of [plaintiff's] colors, arranged in certain geometric designs, presented in conjunction with a particular style of printing ... would leave innumerable other combinations of the same colors ..."), cert. denied, 457 U.S. 1126, 102 S.Ct. 2947, 73 L.Ed.2d 1342 (1982); cf. *No Nonsense Fashions, Inc. v. Consolidated Foods Corp.*, 226 U.S.P.Q. 502 (T.T.A.B. 1985) ("Sheer Elegance" for pantyhose is a suggestive mark, and registration will not prevent competitors from descriptive use of "sheer," "elegant," or "elegance"). But see *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1537 (11th Cir. 1986) (noting exception to general rule of totality when third party use of one or more elements of plaintiff's trade dress is so extensive and so similar to plaintiff's that it impairs ability of consumers to identify source), cert. denied, 481 U.S. 1041, 107 S.Ct. 1983, 95 L.Ed.2d 822 (1987).

the upscale Mexican fast-food market, but it may not copy Taco Cabana's distinctive combination of layout and design features.⁵ Two Pesos' imitation reflects not merely components of Taco Cabana's trade dress, but its distinctive integration of components. The instructions properly cautioned the jury not to focus on isolated components in determining the protectability of Taco Cabana's trade dress, but rather to consider the overall combination of elements.

B. The Elements of Protectability.

1. Functionality

The portions of the trial court's instructions disputed by Two Pesos appear in bold type:

The law allows the copying of functional features in the public interest of enhancing competition....

Even if the trade dress is made up of individual elements, **some of which serve a functional purpose**, the trade dress may be protectable so long as the combination of these individual elements which define Taco Cabana's trade dress

⁵ Two Pesos' own Franchise Agreement assumes the protectability of essentially that which it here asserts cannot be protected. That agreement defines trade dress as follows:

Franchisor employs certain distinctive and identifying restaurant layout and design features, including distinctive building design, decor, accessories and fixtures and other identifying trade dress in the interior and exterior of its Restaurants, which features ... are collectively referred to herein as "Trade Dress."

taken is arbitrary. On the other hand, if you find that Taco Cabana's trade dress taken as a whole must be used by others in order to compete in the Mexican fast-food restaurant business, then you should find that Plaintiff's trade dress is functional and not protectable.

[T]he inquiry into whether Taco Cabana's trade dress is functional or nonfunctional should not be addressed to whether individual elements fall within the definition, but whether the whole collection of elements taken together are functional or non-functional.

[5] Two Pesos' argument reduces to a fallacious syllogism: (1) functional elements do not enjoy protection; (2) Taco Cabana's trade dress includes functional elements; (3) therefore Taco Cabana's trade dress does not enjoy protection. Two Pesos correctly emphasizes that functional features cannot be protected, *Sno-Wizard Mfg., Inc. v. Eisemann Products Co.*, 791 F.2d 423, 425 n. 2 (5th Cir. 1986), but a particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection. See *Sicilia*, 732 F.2d at 425 (design may be distinctive and identifying even though also related to performing a function); *Chemlawn Services Corp. v. GNC Pumps, Inc.*, 690 F.Supp. 1560, 1571 (S.D.Tex. 1988) (exterior configuration of functional parts arbitrarily selected; not necessary to copy configuration of each part to effectuate functions). Taco Cabana does not seek protection for individual elements, but for a particular combination of elements which constitute trade dress as a whole. See *Sicilia*, 732 F.2d at 429.

With the doctrine of functionality, the law secures for the marketplace a latitude of competitive alternatives. See *Freddie Fuddrucker, Inc. v. Ridgeline, Inc.*, 589 F.Supp. 72, 77 (N.D. Tex.

1984) (policy predicate for functionality doctrine is public interest in enhancing competition), *aff'd without op.*, 783 F.2d 1062 (5th Cir. 1986); *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 977-78 (2d Cir. 1987) (functionality test critical to avoid upsetting patent law by indefinitely extending trade dress protection to an aggregation of elements that would otherwise enrich the public domain after expiration of design patent). "The need to avoid monopolization of a design lessens, however, in the area of distinctive trade dress. The wide range of available packaging and design options allows a producer to appropriate a distinctive identity without unduly hindering his competitors' ability to compete." *Sicilia*, 732 F.2d at 426 n. 7. Taco Cabana's particular integration of elements leaves a multitude of alternatives to the upscale Mexican fast-food industry that would not prove confusingly similar to Taco Cabana's trade dress.

[6, 7] Though the district court may have overstated the law to instruct the jury that protection is denied where the particular combination "must be used by others in order to compete,"⁶ under this record the instruction did not mislead the jury or prejudice Two Pesos. See *Smith v. Borg-Warner Corp.*, 626 F.2d 384, 387 (5th Cir. 1980) ("tolerably accurate, albeit incomplete, statement of the law" did not constitute reversible error where instruction, "viewed in its worst light, merely gave plaintiff an instruction on an issue for which there was no evidence"). The jury heard substantial evidence of alternative combinations that could

⁶ It should suffice for a finding of functionality if protecting the trade dress threatens to eliminate a substantial swath of competitive alternatives in the relevant market. "A design would be considered de jure functional if it is 'the best or one of a few superior designs available.'" *Sicilia*, 732 F.2d at 427 (emphasis added), quoting *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1341 (C.C.P.A. 1982).

be used to compete effectively, and the record contains ample evidence that Taco Cabana's trade dress is, taken as a whole, non-functional.

2. *Inherent Distinctiveness & Secondary Meaning.*

[8] "If a mark or dress serves as a symbol of origin it is considered distinctive and protectable. Unless a mark or dress is deemed 'inherently' or 'sufficiently' distinctive, however, secondary meaning must be established." *Sno-Wizard*, 791 F.2d at 425 n. 2.⁷ Arguing that simply "distinctive" trade dress is not enough, Two Pesos cites error in the district court's failure to address the quality of *inherence*. We find no reversible error.

[9, 10] The district court instructed the jury as follows:

Distinctiveness is a term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants and is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive.

⁷ Two Pesos' argument—that the jury finding of inherent distinctiveness contradicts its finding of no secondary meaning in the Texas market—ignores the law in this circuit. While the necessarily imperfect (and often prohibitively difficult) methods for assessing secondary meaning address the empirical question of current consumer association, the legal recognition of an inherently distinctive trademark or trade dress acknowledges the owner's legitimate proprietary interest in its unique and valuable informational device, regardless of whether substantial consumer association yet bestows the additional empirical protection of secondary meaning.

While the district court might have achieved greater semantic clarity by separately addressing distinctiveness and *inherent* distinctiveness, the instruction as a whole properly guided the jury as to the elements of inherent distinctiveness. A distinctive trade dress that is neither descriptive nor functional is *ipso facto* inherently distinctive.⁸

[11] Two Pesos argues that Taco Cabana's trade dress embodies descriptive elements, which should disqualify the dress for inherent distinctiveness. "A *descriptive* term 'identifies a characteristic or quality of an article or service' ... such as its color, odor, function, dimensions, or ingredients." *Zatarains Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 790 (5th Cir. 1983) (finding "Fish-Fri" descriptive and not protectable), quoting *Vision Center v. Opticks, Inc.*, 596 F.2d 111, 115 (5th Cir. 1979), *cert. denied*, 444 U.S. 1016, 100 S. Ct. 668, 62 L.Ed.2d 646 (1980).

⁸ As no one contends that Taco Cabana's trade dress is generic, the jury finding that the trade dress is not merely descriptive means that the dress is arbitrary, fanciful, or suggestive. We need not determine which of these three categories properly characterizes the trade dress, because all three entitle Taco Cabana to protection without proof of secondary meaning. A weak suggestive trade dress might narrow the *scope* of protection to competitors in the same product line, see *P.F. Cosmetique, S.A. v. Minneionka Inc.*, 605 F.Supp. 662, 668-69 (S.D.N.Y. 1985) (suggestive packaging, coupled with wide use of elements, is "weak mark," and thus protected against infringement only by competing products), but Taco Cabana and Two Pesos directly compete in the Mexican restaurant market, and Two Pesos' trade dress infringement therefore warrants redress even if Taco Cabana's trade dress is merely suggestive and weak. See *Sun Banks of Fla. v. Sun Fed Sav. & Loan Ass'n*, 651 F.2d 311, 315 (5th Cir. 1981) ("Although less distinctive than a fictitious, arbitrary or fanciful mark and therefore a comparatively weak mark, a suggestive mark will be protected without proof of secondary meaning.").

Taco Cabana's trade dress does not surrender the possibility of inherent distinctiveness merely by embodying certain descriptive elements. As with Two Pesos' flawed syllogism on functional elements, the existence of descriptive elements does not eliminate the possibility of inherent distinctiveness in the trade dress as a whole. "The whole, in trademark law, is often greater than the sum of its parts." *Association of Co-operative Members, Inc. v. Farmland Indus., Inc.*, 684 F.2d 1134, 1140 (5th Cir. 1982), cert. denied, 460 U.S. 1038, 103 S.Ct. 1428, 75 L.Ed.2d 788 (1983); see also 1 J. McCarthy, *TRADEMARKS AND UNFAIR COMPETITION* § 11:10 at 457 (2d ed. 1984) ("combination of two or more admittedly descriptive elements as a composite mark may result in a composite which is non-descriptive"; and quoting *Farmland Industries, supra*). Again, competitors may use individual elements in Taco Cabana's trade dress, but the law protects the distinctive totality. The jury visited both Taco Cabana and Two Pesos, and heard ample evidence of the distinctiveness of Taco Cabana's total trade dress, including the impressions of individuals responsible for the ultimate look of Two Pesos, who were sufficiently impressed with the distinctiveness of Taco Cabana's trade dress to replicate it. Given its rather brazen appropriation of Taco Cabana's distinctive combination, Two Pesos cannot escape accountability for unfair competition simply by pointing to particular elements it might have fairly employed for its own trade dress.

C. The Legal Effect of the Cross-License.

[12] Prior to this litigation, the Stehling brothers divided the Taco Cabana restaurants. Felix Stehling retained the name "Taco Cabana," and Michael Stehling adopted the name "TaCasita." The agreement allowed the two groups to use the same trade dress, which Two Pesos calls a "naked license." But Two Pesos

faces a stringent standard because finding a "naked license" signals involuntary trademark abandonment and forfeits protection. See *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619, 624-25 (5th Cir. 1963). While this cross-license arrangement is not governed closely by any precedent, we find no basis for an involuntary abandonment.

[13, 14] An owner may license its trademark or trade dress and retain proprietary rights if the owner maintains adequate control over the quality of goods and services that the licensee sells with the mark or dress. See *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977) (quality-control rationale is that public has right to expect consistent quality of goods or services associated with trademark or trade dress). Two Pesos argues that the cross-license creates two separate sources of good will and thus cannot indicate a single origin. This argument ignores the emergence of the "quality theory," which broadens the older source theory "to include not only manufacturing source but also the source of the standards of quality of goods bearing the mark" or dress. 1 J. McCarthy, *supra*, § 3:4 at 112. So long as customers entering a Taco Cabana or a TaCasita can expect a consistent level of quality, the trade dress retains its "utility as an informational device." *Kentucky Fried*, 549 F.2d at 387.

While the parties dispute the actual level of quality control, the jury's finding—that Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's—enjoys adequate record support. We also reject Two Pesos' argument that the district court erred in refusing to instruct the jury that TaCasita must also exercise quality control over Taco Cabana. Ignoring the record evidence of at least some bilateral quality

monitoring, the law requires consistent quality, not equivalent policing. The jury found the requisite quality consistency; we need not demand rigorous bilateral regulation.

[15] The purpose of the quality-control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress. Where the particular circumstances of the licensing arrangement persuade us that the public will not be deceived, we need not elevate form over substance and require the same policing rigor appropriate to more formal licensing and franchising transactions. Where the license parties have engaged in a close working relationship, and may justifiably rely on each parties' intimacy with standards and procedures to ensure consistent quality, and no actual decline in quality standards is demonstrated, we would depart from the purpose of the law to find an abandonment simply for want of all the inspection and control formalities. *See Embedded Moments, Inc. v. International Silver Co.*, 648 F.Supp. 187, 194 (E.D.N.Y. 1986) (license agreement without explicit provision for supervisory control and absence of actual inspection nevertheless no basis for abandonment where prior working relationship established basis for reliance on licensee's integrity and history of manufacture was "trouble-free").

The history of the Stehling brothers' relationship warrants this relaxation of formalities. Prior to the licensing agreement at issue, the Stehling brothers operated Taco Cabana together for approximately eight years. Taco Cabana and TaCasita do not use significantly different procedures or products, and the brothers may be expected to draw on their mutual experience to maintain the requisite quality consistency. They cannot protect their trade dress if they operate their separate restaurants in ignorance of each other's operations, but they need not maintain the careful

policing appropriate to more formal license arrangements. Two Pesos adduces no evidence to indicate any decline in the level of quality at Taco Cabana or TaCasita, and we find nothing in the record to substantiate Two Pesos' claim that the licensing arrangement diminishes any proprietary rights in the trade dress.

D. Likelihood of Confusion.

[16] The district court properly instructed the jury on the likelihood of confusion,⁹ the jury found for Taco Cabana on this issue, and we find no reversible error.

Ignoring the indicia of confusion that yield unfavorable answers, Two Pesos expends considerable energy assaulting the Gelb Survey offered by Taco Cabana. That survey asked customers: (1) if they had ever been to a TaCasita or Taco Cabana or Two Pesos restaurant; (2) if yes, which ones; (3) "Do you think that any of these stores are owned or operated by the same company?" and (4) if so, "Why do you say that?" Questions 3 and 4 simply and objectively address the issue in this litigation. Subject to cross-examination and the other tools of the adversarial system, the jury could properly consider Mr. Gelb's conclusion that a substantial population of those who patronize quick-service Mexican

⁹ The indicia of confusion in the Fifth Circuit, as the district court correctly instructed, include: (a) the type of trade dress at issue; (b) the similarity between the trade dresses; (c) the similarity of products or services provided; (d) whether the plaintiff and defendant were in market competition for the same customers; (e) whether the plaintiff and defendant were likely to use the same advertising media; (f) defendant's intent in its adoption of its restaurant trade dress; and (g) instances of actual confusion. *Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45 (5th Cir. 1975). No single factor is necessarily dispositive. *Falcon Rice*, 725 F.2d at 345 n. 9. Proof of actual confusion is not necessary. *Roto-Rooter*, 513 F.2d at 45-46.

restaurants, particularly those who have patronized Taco Cabana (where the survey was conducted), are likely to believe that Taco Cabana and Two Pesos are owned or operated by the same company.

The Peterson survey offered by the Two Pesos is less helpful. That survey asked all respondents why they patronize Two Pesos. The survey then asked half of the respondents, "have you ever gone to another restaurant by mistake when you intended to go to a Two Pesos restaurant?" The other half were asked, "have you ever gone to a Two Pesos restaurant by mistake when you intended to go to another restaurant?" Predictably, a statistically insignificant number of people confessed to what would appear to be a rather silly mistake.¹⁰ The issue is not whether consumers can read signs and menus that identify different restaurants, but whether consumers assume some affiliation between Taco Cabana and Two Pesos.

Surveys present evidence of actual confusion, which does not exhaust the confusion indicia. The other indicia considerably strengthen the basis for the jury finding: the similarity of the trade dress; the coincidence of products, markets, and advertising

¹⁰ Seeking thoroughness, the surveyors called twelve of the individuals who did so confess to find out more about the nature of their "mistake." Peterson testified during direct examination that the specific responses demonstrated even less likelihood of confusion between Two Pesos and Taco Cabana, because, for example, one person said he had taken a wrong turn, drove into the wrong parking lot, and ended up at Two Pesos "by mistake." Thus even the few so-called mistakes, in Peterson's gloss, turned out to have nothing to do with trade dress. Such responses, far from demonstrating anything relevant about trade dress confusion, instead suggest that people did not understand what the question meant by "mistake."

media; and Two Pesos' intent in adopting its trade dress.¹¹ For self-evident reasons, Two Pesos discusses none of these factors with the vigor of its survey arguments.

Finally, Two Pesos again attacks the cross-license arrangement, arguing essentially that Two Pesos is not accountable for confusion in a market already subject to the confusion perpetuated by Taco Cabana and TaCasita. But a consumer who assumes some affiliation between Taco Cabana and TaCasita assumes correctly and therefore suffers no "confusion."¹² An equivalent assumption about Two Pesos, however, is incorrect, and properly indicative of the market confusion for which the Lanham Act provides redress.

[17] We therefore affirm the trial court's judgment that Two Pesos' appropriation of Taco Cabana's protectable trade dress creates a likelihood of confusion between unrelated entities, and thereby constitutes unfair competition.

¹¹ See *Sno-Wizard*, 791 F.2d at 428 (intent alone may be enough to support finding of likelihood of confusion).

¹² Two Pesos promotes the applicability of *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 705-06 (2d Cir. 1970) (plaintiff and defendant could not jointly or concurrently use Zeiss trademark because both companies directly competitive, sold same products, used same or very similar marks, marketed in many of the same areas and in the same manner, and there was actual confusion), *cert. denied*, 403 U.S. 905, 91 S.Ct. 2205, 29 L.Ed.2d 680 (1971). But in *Carl Zeiss*, the plaintiff asserted exclusive rights to a trademark. There was no consideration of an amicable licensing arrangement. We would confront the persuasive force of this precedent if, for example, Taco Cabana or TaCasita petitioned the court to resolve a claim of exclusive right to the trade dress.

II. Trade Secret Misappropriation

The jury found that Taco Cabana's architectural plans and kitchen equipment layout and design—but not its kitchen and restaurant operating procedures—constitute trade secrets, and that Two Pesos misappropriated these secrets. The jury awarded \$150,000 for the misappropriation.

[18, 19] A trade secret misappropriation in Texas requires: (a) the existence of a trade secret; (b) a breach of a confidential relationship or improper discovery of the trade secret; (c) use of the trade secret; and (d) damages. *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 896 (5th Cir.), *cert. denied*, 454 U.S. 829, 102 S.Ct. 123, 70 L.Ed.2d 105 (1981). A trade secret is any formula, pattern, device or compilation of information used in one's business, and which gives an opportunity to obtain an advantage over competitors who do not know or use it. *Hyde Corp. v. Huffines*, 158 Tex. 566, 586, 314 S.W.2d 763, 776 (adopting RESTATEMENT OF TORTS § 757(1939)), *cert. denied*, 358 U.S. 898, 79 S.Ct. 223, 3 L.Ed.2d 148 (1958).

[20] Architectural plans and kitchen layout and design drawings may be trade secrets.¹³ See, e.g., *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 278 (Tex. App.—Houston [1st Dist.] 1988, no writ) (blueprints, drawings, and customer lists constitute trade secrets); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901-02 (Tex. Civ. App.—Houston [1st Dist.]

¹³ Two Pesos denies the confidential status of the architectural plans and kitchen design, but significantly defines licensed "confidential information" in its own franchise agreement to include "drawings, materials, equipment, specifications, techniques" and so forth.

1978, writ ref'd n.r.e.) (drawings of assembly-line layout and design entitled to trade secret protection); *Ecolaire Inc. v. Crissman*, 542 F.Supp. 196, 206 (E.D. Pa. 1982) (drawings, blueprints, and lists constitute trade secrets because such information could be obtained, through other than improper means, only with difficulty and delay).

[21] The issue thus becomes whether sufficient and continuous secrecy attached to these particular plans and drawings to preserve their status as trade secrets.

The owner of the secret must do something to protect himself. He will lose his secret by its disclosure unless it is done in some manner by which he creates a duty and places it on the other party not to further disclose or use it in violation of that duty.

Furr's, Inc. v. United Specialty Advertising Co., 385 S.W.2d 456, 459 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.), *cert. denied*, 382 U.S. 824, 86 S.Ct. 59, 15 L.Ed.2d 71 (1965); see also *Carson Products Co. v. Califano*, 594 F.2d 453, 461 (5th Cir. 1979) (however strong other indicia of trade secret status may be, subject matter must be secret, such that acquiring information would be difficult except by improper means).

The jury concluded that Two Pesos had misappropriated Taco Cabana's trade secrets, and we must review that conclusion constrained by our generous deference to jury findings. Under a less deferential standard of review, our decision might differ, but considering the evidence "in the light and with all reasonable inferences most favorable" to Taco Cabana, we cannot say that "the facts and inferences point so strongly and overwhelmingly in favor of [Two Pesos] that the Court believes that reasonable [persons]

could not arrive at a contrary verdict." *Boeing Co. v. Shipman*, 411 F.2d 365, 374 (5th Cir. 1969) (en banc), cited in *Molex Inc. v. Nolen*, 759 F.2d 474, 478-79 (5th Cir. 1985) (trade-secret jury trial).

The jury could reasonably view the disclosures adduced by Two Pesos as limited and therefore insufficient to extinguish the secrecy of the materials. If a voluntary disclosure occurs in a context that would not ordinarily occasion public exposure, and in a manner that does not carelessly exceed the imperatives of a beneficial transaction, then the disclosure is properly limited and the requisite secrecy retained. *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1200 (5th Cir. 1986) (finding no surrender of secrecy where disclosures were not public announcements and secrets divulged only to businesses with whom plaintiff dealt with expectation of profit). Thus the disclosure of Taco Cabana plans to contractors did not extinguish their secrecy.¹⁴

[22] Similarly, only a limited disclosure was shown by the fact that a paralegal for Two Pesos' trial counsel obtained the architectural plans from a municipality under the Texas Open Records

¹⁴ See also *International Election Systems Cob. v. Shoup*, 452 F.Supp. 684, 707-08 (E.D. Pa. 1978) (technical drawings and blueprints qualified as trade secrets despite their unrestricted transfer to certain companies and employees' free access to such records), *aff'd without op.*, 595 F.2d 1212 (3d Cir. 1979); cf. *Nucor Corp. v. Tennessee Forging Steel Service, Inc.*, 476 F.2d 386, 390 (8th Cir. 1973) (distribution of plans to potential contractors and subcontractors, even though not marked confidential and not required to be returned, does not constitute general publication for purposes of common law copyright).

Act. TEX. REV. CIV. STAT. ANN. art. 6252-17a (Vernon Supp. 1991).¹⁵ The fact that Taco Cabana was required to file the plans and to obtain a building permit does not eviscerate its legitimate proprietary rights.¹⁶ Cf. *Ashworth v. Glover*, 20 Utah 2d 85, 89-90, 433 P.2d 315, 319 (1967) (architect suing for conversion of restaurant construction plans did not surrender common law proprietary rights in plans by distributing copies to contractors or by filing copy with city). The district court correctly instructed the jury that "[f]iling of architectural plans with a city does not make them public information within the context of secrecy that relates to the law of trade secrets."¹⁷

¹⁵ Section 3(a)(10) creates an exception to disclosure for "trade secrets and commercial or financial information obtained from a person and privileged or confidential by statute or judicial decision." See, e.g., Tex. Att'y Gen. ORD-554 (1990) (semiconductor manufacturer with verified interest in secrecy stated valid trade secret exemption for plan design and layout).

¹⁶ The paralegal obtained the plans in August of 1987 by telling the city clerk of Leon Valley that she needed copies for a lawsuit. Blacketer testified that he obtained a set of Taco Cabana architectural drawings from Kaplan over two years earlier in April of 1985. Thus the acquisition from Leon Valley, even if lawful, does not bear on the outcome of this case. "The fact that a trade secret is of such a nature that it can be discovered by experimentation or other fair and lawful means does not deprive its owner of the right to protection from those who would secure possession of it by unfair means." *Weed Eater*, 562 S.W.2d at 901.

¹⁷ Given the inevitable conflict between public and private information under laws that vigorously and necessarily champion both, we do not intend herein to signal a significant shift in either direction. The delicate balance remains undisturbed. But if the wide public dissemination we prize disorgans properly confidential information, we need not thereafter baptize its unfair exploitation. We neither alter nor add to either body of law to recognize that bare availability of information does not end the fact-sensitive inquiry into whether it was nevertheless misappropriated. Cf. *Edgar H. Wood Associates, Inc. v. Skene*, 347 Mass. 351, 363, 197 N.E.2d 886, 894 (1964) ("It is not the purpose of the filing requirement to facilitate and permit architectural plagiarism, or enable one to obtain free of charge the benefit of another's work and thus to reap where it has not sown.").

Joseph Friesenhahn, Felix Stehling's former partner, was a prospective associate in the Two Pesos venture until McDermott and Blacketer decided to go forward without his services. Friesenhahn testified in his deposition that McDermott (one of Two Pesos' founders) offered him \$25,000 for a set of the plans. McDermott fervently denied making this offer, and Friesenhahn's deposition testimony did flip-flop on this issue because of a peculiar memory lapse in the first deposition. But it is the jury's province to determine weight and credibility. "Secrecy is a relative term. The information may be known to several persons and yet still be secret if third parties would be willing to pay for a breach of trust in order to ascertain it." *A.H. Emery Co. v. Marcan Products Corp.*, 268 F. Supp. 289, 299 (S.D.N.Y. 1967) (holding that drawings and blueprints of a machine are trade secrets), *aff'd*, 389 F.2d 11 (2d Cir.), *cert. denied*, 393 U.S. 835, 89 S.Ct. 109, 21 L.Ed.2d 106 (1968).

The jury heard further that upon failing the Friesenhahn ploy, McDermott and Blacketer obtained a set of the plans from Joe Kaplan, a lighting designer. Kaplan testified in his deposition that he had borrowed a set of plans from Rene DeBacker, an electrical estimator for Vollmer Electrical Company. Kaplan said he wanted to study the plans and recommend better lighting arrangements, though he later admitted that he never looked at the plans. He copied the plans without telling anyone, and the next day "brought the [original] plans back and put them back on the table where [he] found them."

DeBacker testified that he considers such plans confidential, that he would always consult Vollmer before considering a request for copies of plans, and that neither Kaplan nor anyone else ever asked him for a set of the plans. Ferdinand Vollmer likewise testified that his company treats all architectural plans as

proprietary and confidential, that Kaplan never asked him for a set of Taco Cabana plans, that he would not have given him a set even had Kaplan asked, and that he thinks Kaplan stole the plans.

We need not detail the various reasonable inferences—some subtle and some unsavory—to acknowledge that one view of the evidence would not inculpate Two Pesos; another view would. The jury properly assumed its function of assigning weight and credibility to the various accusations and denials, of which the foregoing is a representative glimpse. The jury's conclusion rests on adequate evidence, and we decline to disturb the verdict.

[23] Finally, Two Pesos does not seriously dispute that it used the plans, and ample evidence supports this conclusion.

III. Remedies

The jury awarded \$306,000 for lost profits, \$628,300 for lost income, and nothing for loss of good will. For the trade secret misappropriation, the jury awarded \$150,000.¹⁸ Finding intentional and deliberate infringement, the district court doubled the damages to \$1,868,600 for the trade dress infringement, and awarded attorneys' fees of \$937,550. The court further ordered Two Pesos to make several changes in the design of its Texas restaurants, and to dispel customer confusion by displaying a

¹⁸ In its jury instructions on damages, the district court carefully addressed the separate elements of damages—the value of the trade secret, and the loss of profits, income and good will from the trade dress infringement—but without indicating that these categories could overlap. Two Pesos thoroughly briefed the issue of damages, but raised no point of error as to possible duplication in the award, and we do not address it.

prominent sign for a year acknowledging that Two Pesos had unfairly copied Taco Cabana's restaurant concept.

Taco Cabana claims injury, under the so-called "headstart" theory, from Two Pesos' preemption of the Houston market and other areas. According to Two Pesos, the jury based damages on an initial franchise fee of \$10,000 per store and continuing royalty of 1% (which is substantially below what Taco Cabana or Two Pesos requires of actual franchisees). The lost profits calculation apparently assumes a foreclosure of five restaurants in the Houston area at a 6% profits margin on sales of \$1.7 million per store with an incremental fixed overhead of \$204,000. The jury heard abundant evidence on the foregoing remedies, including detailed damage models yielding totals substantially exceeding the jury's award.

A. Trade-Dress Infringement Remedies.

[24] Circuits that have addressed the issue uniformly apply the Lanham Act remedies of section 35 to violations of section 43(a). See *NuPulse, Inc. v. Schlueter Co.*, 853 F.2d 545, 548, 550 (7th Cir. 1988) (citing cases).¹⁹ Section 35 provides that a prevailing plaintiff may,

subject to the principles of equity . . . recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action In assessing damages the court may

¹⁹ Congress codified this resounding support for consistent remedies by enacting the Trademark Law Revision Act on November 16, 1988 which, *inter alia*, amended section 35 to include section 43(a) violations. 15 U.S.C.A. § 1117(a) (West Supp. 1991).

enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. Such sum . . . shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

15 U.S.C.A. § 1117(a) (West Supp. 1991). Taco Cabana's recovery may include "the economic benefits they normally would have received by licensing." *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 597 F.2d 71, 75 (5th Cir. 1979).

B. Injunctive Relief.

[25, 26] Two Pesos weakly contests the requirements of structural changes and corrective and advertising, calling them punitive instead of compensatory. "In fashioning relief against a party who has transgressed the governing legal standards, a court of equity is free to proscribe activities that, standing alone, would have been unassailable." *Kentucky Fried*, 549 F.2d at 390; see also *Chevron*, 659 F.2d at 705 (defendant required to distance itself from plaintiff's trade dress, even if requirement involves a competitive handicap not suffered by others); *Frisch's Restaurants, Inc. v. Elby's Big Boy, Inc.*, 670 F.2d 642, 650-51 (6th Cir.) (affirming district court's requirement of corrective advertising), *cert. denied*, 459 U.S. 916, 103 S.Ct. 231, 74 L.Ed.2d 182 (1982).

C. Profits and Damages.

[27] Two Pesos argues that a monetary award requires evidence of actual confusion, and that only diverted sales provide a proper measure of damages. We disagree, as we did in *Boston Professional Hockey*, 597 F.2d at 75-76 (plaintiff's failure to quantify any

damages from diverted sales did not preclude recovery for deprivation of economic benefits that would have accrued from licensing); *see also Shen Mfg. Co. v. Suncrest Mills, Inc.*, 673 F. Supp. 1199, 1206 (S.D.N.Y. 1987) (defendant's intentional copying entitles plaintiff to profits based on unjust enrichment theory despite failure to prove any instance of actual confusion). Because we embrace the "headstart" theory as the apt framework for monetary recovery, we need not pursue the issue of actual diverted sales.

Especially given the volatility of the restaurant industry, and the significant value of securing the image of "market leader," we believe the "headstart" theory provides an apt framework for Taco Cabana's monetary recovery. Two Pesos' infringement foreclosed the Houston market, which Gabriel Gelb characterized as "one of the most affluent Mexican food markets in the country." Based on the Houston market alone, Gelb estimated lost profits of \$4.4 million. Other damage models produced even higher figures. The jury award easily qualifies as reasonable compensation to Taco Cabana.

D. Enhanced Damages.

Finding that Two Pesos' conduct was willful and deliberate, the district court doubled the jury award for infringement. Judge Singleton asserted that "[u]nder the facts of this case and listening to the witnesses and judging the credibility myself, I can come to no other conclusion than to find that Two Pesos' actions were willful in the sense that it was deliberate. . . . The evidence was overwhelming." Intentional imitation alone—as opposed to intentional infringement—would not suffice for the requisite bad faith, but as his Order recites, Judge Singleton found "that Two

Pesos intentionally and deliberately infringed Taco Cabana's trade dress."

[28, 29] We must respect the fact that section 35 endows the district court with considerable discretion in fashioning an appropriate remedy for infringement. An enhancement of damages may be based on a finding of willful infringement, but cannot be punitive. *Playboy Enterprises, Inc. v. P.K. Sorren Export Co.*, 546 F. Supp. 987, 998 (S.D.Fla. 1982); *see* 15 U.S.C.A. § 1117(a) (West Supp. 1991) (any sum in excess of actual damages must "constitute compensation and not a penalty").

[30] It is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found "compensatory," must be "compensatory" and not "punitive." Responding to that anomaly, we have suggested that enhancement could, consistent with the "principles of equity" promoted in section 35, provide proper redress to an otherwise undercompensated plaintiff where imprecise damage calculations fail to do justice, particularly where the imprecision results from defendant's conduct. *Boston Professional Hockey*, 597 F.2d at 77 (increased damages justified when defendant withholds or misrepresents available sales records or otherwise obstructs ascertainment of damages); *accord P.K. Sorren*, 546 F. Supp. at 998-99 (award of excess damages appropriate where "record strongly indicates that plaintiff's damages and defendant's profits were both greater than the amounts conclusively proven"). We find no evidence of information obstruction by Two Pesos, but we acknowledge the trial court's superior capacity to discern the elements of equitable compensation. Given the substantial evidence of willful infringe-

ment,²⁰ the jury finding of trade secret misappropriation, and the evidence of substantial damages not reflected in the jury award, we cannot say that Judge Singleton abused his discretion.

E. Attorney Fees.

[31] Section 35 of the Lanham Act permits an award of attorneys' fees in "exceptional cases." The judicial definition of an exceptional case often appears indistinguishable from the standard for enhancement of damages: some form of willful, deliberate, or fraudulent conduct. Indeed, Taco Cabana invites us to apply the same standard, employ the same evidence, and affirm on that basis. We decline to conflate the standards because some cases may well warrant one form of recovery and not the other,²¹ and we do not wish so to regiment the discretion of district courts seeking equity.

[32] We review for abuse of discretion, mindful that "the district court heard the evidence, saw the witnesses, and appraised their motives. Based on its personal observations, the court found that [defendant's] conduct was 'certainly intentional' and designed to reduce [plaintiff's] sales." *Nu-Pulse*, 853 F.2d at 547

²⁰ The weight of the evidence persuades us, as it did Judge Singleton, that Two Pesos brazenly copied Taco Cabana's successful trade dress, and proceeded to expand in a manner that foreclosed several lucrative markets within Taco Cabana's natural zone of expansion. Cf. *Weiner King, Inc. v. Wiener King Corp.*, 615 F.2d 512, 522 (C.C.P.A. 1980) (junior user's knowledge of senior user coupled with attempt to box in senior user by cutting off expansion can support finding of bad faith in registration hearing).

²¹ See, e.g., *Playboy Enterprises, Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1276 (9th Cir. 1982) (affirming district court's refusal to enhance damages, but reversing refusal to award attorneys' fees).

(affirming award of fees); see also *Shen Mfg.*, 673 F. Supp. at 1207 (defendant's intentional copying makes case "exceptional" and entitles plaintiff to punitive damages and attorneys' fees). Some conscious good-faith effort by Two Pesos to create elements of dissimilarity might have rendered this case "unexceptional." *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 942 (7th Cir. 1989), cert. denied, ___ U.S. ___, 110 S.Ct. 1124, 107 L.Ed.2d 1030 (1990). But Two Pesos earns no such saving grace. Given the evidence of brazen imitation and rapid market foreclosure, we find no abuse of discretion in the award of attorneys' fees.²²

F. Trade-Secret Damages.

[33, 34] Trade-secret misappropriation damages typically embrace some form of royalty. *Metallurgical*, 790 F.2d at 1208 ("reasonable royalty" aptly defines measure of damages in trade secret misappropriation case); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 737 (5th Cir.) (affirming award of damages that represented reasonable per unit royalty), cert. denied, 458 U.S. 1108, 102 S.Ct. 3488, 73 L.Ed.2d 1369 (1982). With the evidence of sales in the scores of millions and impressive profits, the jury's single award of \$150,000 is not unreasonable.

The judgment of the district court is AFFIRMED.

²² The parties stipulated that attorneys' fees of \$937,500 were reasonable if the district court could properly award fees.

**CHRONOLOGICAL LIST OF RELEVANT DOCKET
ENTRIES**

January 6, 1987	Complaint filed in United States District Court for the Southern District of Texas, Houston Division.
February 6, 1987	Answer, Defenses and Counterclaims filed with the District Court.
March 3, 1987	Reply to Counterclaim filed in District Court.
March 22, 1988	First Amended Complaint filed in District Court.
September 22, 1988	Final Joint Pretrial Order filed in the United States District Court.
October 26, 1988	The Final Instructions to the Jury filed in the United States District Court.
October 26, 1988	Jury Verdict rendered.
November 4, 1988	Motions for Judgment Notwithstanding the Verdict filed with the District Court.
November 7, 1988	Injunction Hearing held by the District Court.
November 9, 1988	Order entered denying Motions for Judgment Notwithstanding the Verdict.

December 30, 1988	Signed, final Order entered awarding monetary and injunctive relief.
January 17, 1989	Motions for a New Trial filed with the District Court.
January 24, 1989	Order entered denying Motions for a New Trial.
February 17, 1989	Notice of Appeal filed with District Court.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL,	§	
INC., and TACO CABANA, INC.,	§	C.A. No. H-87-0026
	§	
Plaintiffs,	§	
	§	
vs.	§	
	§	
TWO PESOS, INC.,	§	TRIAL BY JURY DEMANDED
	§	
Defendant.	§	

FIRST AMENDED COMPLAINT

Taco Cabana International, Inc. and Taco Cabana, Inc., Plaintiffs, bring this action against Two Pesos, Inc., Defendant, and allege that:

JURISDICTION

1. This Court has subject matter jurisdiction over this cause under the laws of the United States of America, including 15 U.S.C. § 1125(a) and 28 U.S.C. § 1338.

2. This Court has pendent jurisdiction over all other claims asserted herein, these claims being necessarily determinable together with the above federal claims.

3. The amount in controversy is in excess of Ten Thousand Dollars (\$10,000.00).

4. This Court has personal jurisdiction over the Defendant since the Defendant does business and has its principal place of business in this judicial district.

5. Plaintiffs' claims arise in this judicial district as well as in other judicial districts in Texas and elsewhere in the United States.

THE PARTIES

6. Plaintiffs are Texas corporations having their principal places of business in San Antonio, Bexar County, Texas.

7. Defendant, Two Pesos, Inc., is a Texas corporation having its principal place of business within this judicial district.

FACTS

8. The first Taco Cabana restaurant opened in San Antonio, Texas in 1978 and the next one opened in early 1983. From these restaurants, a chain of successful Taco Cabana restaurants was established which through the expenditure of time, effort and monies has become well-known for high quality, distinctive Mexican fast-food. Plaintiff Taco Cabana, Inc. is the owner of several restaurants operating in San Antonio, Austin, Houston and San Marcos. Plaintiff Taco Cabana International, Inc. acquired the right to enforce the trade dress and other proprietary rights of the Taco Cabana chain of restaurants by contract. Taco Cabana, Inc., Taco Cabana International, Inc., and their predecessors being collectively referred to hereinafter as "Plaintiffs."

9. Plaintiffs have developed, through the expenditure of time, effort and monies, a distinctive trade dress which identifies Plaintiffs' goods and services and distinguishes them from the goods and services of its competitors.

10. Plaintiffs' trade dress includes among other things a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outdoor patio by garage doors. The exterior of the building is a festive and vivid color using top border paint and neon stripes. Bright awnings and umbrellas continue the theme. The food ordering counter is set at an oblique angle to the exterior wall and communicates electronically with the food preparation and pick-up areas. The exposed food preparation area is accented by certain cooking and preparation equipment which is visible to the consumer and the menu board is prominently placed near the ordering counter. Proximate the food pick-up area is a condiment stand which is located within the interior dining area.

11. Plaintiffs' goods and services as identified by its trade dress have become widely and favorably accepted by the consuming public and have enjoyed much commercial success.

12. Plaintiffs' trade dress, through widespread and favorable public acceptance and recognition, has become an asset of substantial and incalculable value as the identifying indicia of Plaintiffs' quality products, quality services and goodwill.

13. Subsequent to Plaintiffs' public use of its trade dress and Plaintiffs' trade dress acquiring public acceptance and recognition as identifying and distinguishing Plaintiffs' restaurants from the

restaurants of others, Defendant, with prior knowledge of Plaintiffs' use of its trade dress, began offering competitive goods and services to the public identified by a trade dress which is confusingly similar or likely to cause confusion with the trade dress of Plaintiffs.

14. A partial textual list of some of the elements of similarities between Defendant's trade dress and Plaintiffs' trade dress as described above can be found in Exhibit A attached to the Original Complaint and incorporated herein for all purposes.

15. Defendant has also arranged to illegally obtain a set of Plaintiffs' architectural plans and used a copy of the plans to derive the final plans for Defendant's restaurants.

16. Defendant has wrongfully misappropriated additional intangible property rights of the Plaintiffs by acquiring Plaintiffs' trade secrets, know-how and personnel and otherwise taking actions to wrongfully "copy" or "knock-off" Plaintiffs' successful business and reputation.

17. Defendant has employed at least one former manager of a Plaintiffs' restaurant and interviewed other employees and suppliers with a view toward executing its intent to duplicate the Taco Cabana concept and misappropriate it.

18. Defendant's copying of Plaintiffs' trade dress, methods of doing business and architectural plans, when taken together, produce a pattern and effect which show that Defendant deliberately and intentionally copied and misappropriated Plaintiffs' trade dress and intangible property rights and has caused Defendant's restaurants, goods and services to be likely to be confused or mistaken for those of Plaintiffs' restaurants,

goods, and services or to confuse the public as to the source and origin of these unique goods and services identified by Taco Cabana's trade dress.

19. Plaintiffs have complained to the Defendant of Defendant's misappropriation in writing and in meetings and has repeatedly demanded that Defendant cease and desist from the above complained of activities. Defendant's complained of activities have continued unabated.

20. The acts of Defendant complained of hereinabove are unlawful, and willful and knowing with the intent and result of injuring the Plaintiffs.

COUNT ONE

UNFAIR COMPETITION

AND FALSE DESIGNATION OF ORIGIN

21. Plaintiffs repeat and reaver each and every averment contained in paragraphs 1 through 20 hereof as if fully set forth herein.

22. Defendant has and is continuing to affix, apply, or use in connection with its restaurants, goods and services a false designation or origin, or a false description and representation, tending to falsely describe or represent the same, and has caused such use to enter into commerce and has, with knowledge of the falsity of such designation of origin or description and representation, caused or procured the same to be transported or used in commerce.

23. By the acts herein alleged, Defendant has falsely designated the origin of its restaurants, goods and services and has falsely described and represented the same and has caused them to enter into interstate commerce in violation of Section 43(a) of the Trademark Act (Lanham Act) of July 15, 1946, as amended, Title 15 U.S.C. § 1125(a).

24. The acts of Defendant complained of hereinabove tend to falsely describe or represent that Defendant's restaurants, goods and services are of the same character, nature and quality as the restaurants, goods and services of Plaintiffs, thereby damaging Plaintiffs and Plaintiffs' reputation and said acts have been committed knowingly and willfully and will continue unless enjoined by this Court.

25. The acts of Defendant complained of hereinabove constitute acts of unfair competition against Plaintiffs under the laws of the United States of America including Section 43(a) of the Lanham Act, which acts have been committed knowingly and willfully and have injured Plaintiffs in their trade and business. Unless Defendant's unfair acts are enjoined, the irreparable harm suffered by Plaintiffs will continue.

COUNT TWO

STATE UNFAIR COMPETITION

26. Plaintiffs repeat and reaver each and every averment contained in paragraphs 1 through 25 hereof as if fully set forth herein.

27. The acts of Defendant complained of hereinabove constitute acts of unfair competition against Plaintiffs under the

laws of the State of Texas, which acts have been committed knowingly and willfully and have injured Plaintiffs. Unless Defendant's unfair acts are enjoined, the irreparable harm suffered by Plaintiffs will continue unabated.

COUNT THREE

DECLARATORY JUDGMENT AND INJUNCTIVE RELIEF

28. Plaintiffs repeat and reaver each and every averment contained in paragraphs 1 through 27 hereof as if fully set forth herein.

29. Defendant is irrevocably committed to pursuing in the future the above described courses of conduct to Plaintiffs' great, immediate and irreparable harm.

30. Plaintiffs seek a declaratory judgment that the above described courses of conduct of Defendant are unlawful and seek injunctive relief ordering Defendant to cease such unlawful courses of conduct and follow a remedial course of conduct to compensate for and restore Plaintiffs to the position they had obtained prior to Defendant's embarking on its wrongful and improper course of conduct.

PRAYER FOR RELIEF

WHEREFORE, PREMISES CONSIDERED, Plaintiffs pray for the following relief:

A. After a trial on the merits, a permanent injunction issue enjoining Defendant, its agents, servants, employees or anyone

acting in concert with them from infringing Plaintiffs' trade dress or unfairly competing with Plaintiffs or misappropriating Plaintiffs' tangible and intangible property rights;

B. Defendant be required to pay Plaintiffs such damages, together with prejudgment interest thereon, as Plaintiffs have sustained as a consequence of Defendant's wrongful acts as set forth above, and to account for and return to Plaintiffs, any monies, gains, profits and advantages gained by Defendant due to the wrongful courses of conduct set forth above;

C. Defendant be required to pay exemplary damages to Plaintiffs;

D. Defendant be required to pay Plaintiffs' costs of this action, including costs and attorneys' fees;

E. A declaratory judgment issue that the courses of conduct by Defendant as set forth above are unlawful and dictating remedial action by the Defendant to remedy such wrongful course of conduct; and

F. Judgment in favor of Plaintiffs granting such other and further relief to Plaintiffs as this Court may deem just.

Plaintiffs demand a trial by jury pursuant to Fed. R. Civ. P. 38.

Respectfully submitted,

James B. Gambrell
Admissions ID No. 1125
Attorney in Charge
Pravel, Gambrell, Hewitt, Kimball
& Krieger
1177 West Loop South
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Houston, Texas 77027
(713) 850-0909

Of Counsel:

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Kimball & Krieger
1177 West Loop South
Suite 1010
Houston, Texas 77027
(713) 850-0909

Date: December 15, 1987

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing FIRST AMENDED COMPLAINT was served via U.S. First Class Mail, postage prepaid on the following on this 15th day of December, 1987:

Michael O. Sutton
ARNOLD, WHITE & DURKEE
750 Bering Drive, Suite 400 (77057)
P. O. Box 4433
Houston, Texas 77210

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL, INC., §
and TACO CABANA, INC., §
§
Plaintiffs, §
§
v. § C.A. No. H-87-0026
§
TWO PESOS, INC., §
§
Defendant. §

ANSWER, DEFENSES AND COUNTERCLAIMS
TO FIRST AMENDED COMPLAINT

TWO PESOS, INC. ("TWO PESOS") responds to Plaintiffs' First Amended Complaint as follows, with the numbered paragraphs 1-30 corresponding to like numbered paragraphs in the Complaint:

ANSWER

1. Admitted.
2. Denied.
3. Admitted.

4. Admitted.
5. Denied.
6. Admitted.
7. Admitted.

8. TWO PESOS admits the statements in the first sentence of this paragraph. TWO PESOS is without sufficient knowledge or information to form a belief as to the truth of all other statements in this paragraph, and therefore denies the truth of such statements.

9. Denied.
10. Denied.
11. Denied.

12. TWO PESOS admits that Plaintiff's trade dress, if any, has an incalculable value, thereby preventing Plaintiff from having any legitimate claim to monetary damages. TWO PESOS denies all other allegations in this paragraph.

13. Denied.

14. TWO PESOS admits that Plaintiffs have attached an Exhibit A to the Original Complaint, but otherwise denies the statements in this paragraph.

15. Denied.

16. Denied.

17. TWO PESOS admits that it hired one of Plaintiffs' managers after Plaintiffs had terminated that person's employment with Plaintiffs, but otherwise denies the statements in this paragraph.

18. Denied.

19. TWO PESOS admits that it has received at least one letter from representatives of Plaintiffs, that representatives of TWO PESOS have met with representatives of Plaintiffs to attempt to determine the specific charges and to resolve and compromise their differences on reasonable terms, but denies that there was ever a good faith basis for any of Plaintiffs' charges or that Plaintiffs have ever attempted to negotiate settlement in good faith. TWO PESOS denies all other allegations in this paragraph.

20. Denied.

21. TWO PESOS responds to each and every averment contained in this paragraph as it has responded in paragraphs 1-20 above.

22. Denied.

23. Denied.

24. Denied.

25. Denied.

26. TWO PESOS responds to each and every averment contained in this paragraph as it has responded in paragraphs 1-25 above.

27. Denied.

28. TWO PESOS responds to each and every averment contained in this paragraph as it has responded in paragraphs 1-27 above.

29. TWO PESOS admits that it is committed to doing what it has a right to do, i.e., compete fairly in the restaurant business with Plaintiffs. TWO PESOS denies that it is competing unfairly and specifically denies all other allegations of this paragraph.

30. TWO PESOS admits that Plaintiffs seek certain relief in this action, but denies that Plaintiffs are entitled to such relief and denies all other allegations of this paragraph.

AFFIRMATIVE AND OTHER DEFENSES

31. Plaintiffs are estopped from asserting any rights that they might otherwise have had.

32. The delay of Plaintiffs in bringing this action and their inaction in asserting whatever rights they may have constitute a waiver, estoppel and/or laches to Plaintiffs' ability to obtain relief in this suit.

33. TWO PESOS has not infringed upon any protectable rights that Plaintiffs might have, including trade dress rights, rights under Title 15 U.S.C. § 1125(a), or any other rights that are asserted in the First Amended Complaint. In particular, without

limitation, TWO PESOS asserts that any similarities between its restaurants and Taco Cabana restaurants exist in aspects which are either functional, not sufficiently distinctive, and/or have not acquired or cannot legally acquire a secondary meaning.

34. TWO PESOS has not done anything that could be considered or construed as acts of unfair competition.

35. Plaintiffs' sole remedy for alleged improper copying of any architectural plans is under the Copyright Laws of the United States. All common law claims arising from the alleged copying of any architectural plans are specifically preempted by 17 U.S.C. § 301. Accordingly, Plaintiffs have no basis for urging any allegedly improper copying of any architectural plans.

36. Plaintiffs have no trade secrets that could have been misappropriated by TWO PESOS. No confidential relationship has ever existed between Plaintiffs and TWO PESOS, either express or implied, and TWO PESOS has not used any information that could reasonably be considered as being proprietary to Plaintiffs.

37. Plaintiffs have suffered no damage and/or no quantifiable damage as a result of any activities of TWO PESOS.

38. Plaintiffs have knowingly permitted third parties to use their allegedly proprietary trade dress and business methods without taking action against them, thereby rendering such alleged trade dress and business methods unprotectable as a matter of law.

COUNTERCLAIM

JURISDICTION

39. The Court has subject matter jurisdiction under the Declaratory Judgment Act, Title 28, United States Code, Sections 2201 and 2202, and under the laws of the United States concerning actions arising under an Act of Congress relating to trademarks, Title 15, United States Code, Section 1121 and Title 28, Section 1338(a). The Court has ancillary, or in the alternative pendent, subject matter jurisdiction over the unfair competition counterclaims under 28 U.S.C. § 1338(b) because these counterclaims are substantial and related claims to the Act of Congress relating to trademarks.

40. This Court has ancillary, or in the alternative pendent, subject matter jurisdiction over this counterclaim under the laws of the United States of America because this counterclaim is a compulsory counterclaim which bears a logical relationship with the claims asserted in Plaintiffs' First Amended Complaint.

41. The Court has personal jurisdiction over the Counterclaim Defendants, which are Texas corporations having several places of business in Houston and which have selected this forum for determination of the causes asserted in their First Amended Complaint.

FACTS

42. TWO PESOS has enjoyed success to date with its restaurants and as a result has planned and continues to plan expansion of its enterprise by seeking to open additional restaurants in Houston and elsewhere.

43. Through its own efforts and by various other means TWO PESOS also has plans to expand through the granting of franchises to third parties and has developed numerous advantageous business relationships with both potential investors and franchisees.

44. Further, TWO PESOS has completed a merger with Span Corporation under a plan of going public to raise capital for further expansion of its restaurant chain.

45. TWO PESOS has also completed a secondary offering of publicly traded securities in a further attempt to raise capital for expansion of its restaurant chain.

46. Counterclaim Defendants were aware of TWO PESOS' intent to merge, were and are aware of efforts by TWO PESOS to raise capital for continued expansion, and were and are aware of TWO PESOS' attempts to obtain franchisees.

47. On information and belief, Counterclaim Defendant Taco Cabana International, Inc. filed its Original Complaint with both Counterclaim Defendants' knowledge and approval, and then the Counterclaim Defendants filed their First Amended Complaint, both actions being with the purpose by both Counterclaim Defendants of interfering with and hampering TWO PESOS' expansion plans and its ability to raise capital to support the planned expansion.

48. On information and belief, one of the Counterclaim Defendant's Taco Cabana International, Inc.'s, purposes in filing its Original Complaint was also to aid it in its own expansion plans and in acquiring franchisees. Counterclaim Defendant Taco Cabana, Inc. fully concurred in that action and adopted the

liability for that course of conduct by concurrence in that activity and by joining and continuing with this lawsuit. In this connection, at least one representative of the Counterclaim Defendants has made statements to at least one of TWO PESOS' potential franchisees that TWO PESOS would not be around as a result of the lawsuit brought by Counterclaim Defendants, and that the prospective franchisee should not invest in a TWO PESOS franchise, thereby influencing the prospective franchisee not to deal with TWO PESOS.

49. Counterclaim Defendants are using the timing, filing and existence of this lawsuit as an improper instrument to hamper TWO PESOS' ability to raise capital and to acquire franchisees, both of which are lawful and rightful activities in pursuit of justified commercial activity and growth, and to stifle and restrain competition by TWO PESOS.

COUNT I - DECLARATORY JUDGMENT
OF NO CAUSE OF ACTION
UNDER 15 U.S.C. § 1125(a)

50. Counterclaim Defendants have sued TWO PESOS under 15 U.S.C. § 1125(a) for trade dress infringement.

51. Testimony taken during discovery has shown that the individual elements of Counterclaim Defendants' trade dress are functional and thus not protectable under controlling Fifth Circuit law. Counterclaim Defendant Taco Cabana International, Inc. has even admitted in papers filed with the Court that the individual elements of its trade dress are "functionally optimal."

52. Testimony taken during discovery has shown that Counterclaim Defendants' trade dress is not distinctive, and is

therefore not protectable under Fifth Circuit law in the absence of secondary meaning.

53. Testimony taken during discovery and documents produced by Counterclaim Defendants show that Counterclaim Defendants' trade dress is geographical descriptive and is thus not protectable under Fifth Circuit law in the absence of secondary meaning.

54. Counterclaim Defendants have allowed a competing restaurant chain, Ta Casita, to operate with trade dress identical to the trade dress of several of Counterclaim Defendants' restaurants. It is thus impossible, as a matter of law in the Fifth Circuit, for Counterclaim Defendants' restaurants to have secondary meaning.

55. Counterclaim Defendants have no legally protectable trade dress under controlling Fifth Circuit law. TWO PESOS has been damaged and continues to sustain damage in defending itself against Counterclaim Defendants' trade dress infringement suit. The damages which TWO PESOS has sustained include payment of attorneys fees, diversion of management attention, and diversion of corporate resources. The legally unsupportable claim of trade dress infringement by Counterclaim Defendants against TWO PESOS has caused TWO PESOS irreparable harm, for which there is no adequate remedy at law. Such unlawful prosecution of the trade dress infringement claim by Counterclaim Defendants will continue to damage TWO PESOS unless the Court issues a declaratory judgment finding that Counterclaim Defendants have no legally protectable trade dress and thus have no course of action against TWO PESOS under 15 U.S.C. § 1125(a).

COUNT II - UNFAIR COMPETITION
BY SHAM LITIGATION

56. TWO PESOS reasserts the allegations set forth in Paragraphs 41-55 herein.

57. On information and belief, the filing of the Original Complaint, continued prosecution of Counterclaim Defendants' cause of action for trade dress infringement and misappropriation of trade secrets, and the filing of Counterclaim Defendants' First Amended Complaint, were done for the purposes of hindering TWO PESOS from competing in the marketplace with Counterclaim Defendants.

58. On information and belief, Counterclaim Defendants have engaged in sham litigation against TWO PESOS in an effort to compete unfairly with TWO PESOS.

59. As a result of Counterclaim Defendants' unlawful acts, TWO PESOS has sustained and continues to sustain damages including payment of legal fees, diversion of management attention, and diversion of corporate resources. The sham litigation brought by Counterclaim Defendants against TWO PESOS has been widely reported in industry publications, and to the financial and securities markets. This litigation has depressed the value of TWO PESOS, reduced TWO PESOS' ability to obtain financing and reduced TWO PESOS' ability to expand its number of restaurants.

60. The aforesaid unlawful acts have damaged and continue to damage TWO PESOS, causing irreparable harm, for which there is no adequate remedy at law. Such unlawful acts and damage will continue to occur unless enjoined by this Court.

**COUNT III - UNFAIR COMPETITION BY
TORTIOUS INTERFERENCE
WITH PROSPECTIVE CONTRACTUAL RELATIONSHIPS**

61. TWO PESOS reasserts the allegations set forth in Paragraphs 41-60 herein.

62. By virtue of its success to date with its restaurants, TWO PESOS has enjoyed the potential and reasonable probability for advantageous business relationships with potential investors and franchisees.

63. Counterclaim Defendants have intentionally and maliciously interfered with and attempted to interfere with TWO PESOS' ability to raise capital, to compete in the business of restaurant services, and to acquire franchisees.

64. Counterclaim Defendants were not justified or privileged in their improper efforts to injure and to unfairly compete with TWO PESOS.

65. TWO PESOS has and will continue to suffer actual harm or damage from Defendants' unlawful acts, at least some of which are irreparable.

PRAYER FOR RELIEF

Counterclaim Plaintiff requests:

A. A Declaratory Judgment that Counterclaim Defendants have no cause of action under 15 U.S.C. § 1125(a), and that the litigation by them is sham.

B. A denial of all relief requested by Plaintiffs' First Amended Complaint, including a dismissal with prejudice of all causes of action asserted in the First Amended Complaint.

C. The entry of a permanent injunction, restraining the Counterclaim Defendants from any further improper acts against TWO PESOS.

D. An award of damages in an amount sufficient to compensate TWO PESOS, INC. for the losses it has and will incur as a result of Counterclaim Defendants' unlawful activity, together with prejudgment interest.

E. The entry of an order requiring Counterclaims Defendants to account for and to pay to TWO PESOS, INC. any monies, gains, profits or advantages gained by Counterclaim Defendants as a result of its unlawful activity.

F. An award of exemplary damages in an amount found sufficient to deter Counterclaim Defendants' from committing further unjustified and malicious activity.

G. An award to TWO PESOS, INC. for its costs and legal expenses incurred in this lawsuit.

H. Such other relief that may be justified under the circumstances.

Respectfully submitted,

Date: _____

Michael O. Sutton
Admission I.D. No. 5941
Attorney in Charge
Bill Durkee
Admission I.D. No. 557
Richard T. Redano
Admission I.D. No. 6091
ARNOLD, WHITE & DURKEE
P.O. Box 4433
Houston, Texas 77210
(713) 787-1400

Attorneys for Defendant

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing ANSWER, DEFENSES AND COUNTERCLAIMS TO FIRST AMENDED COMPLAINT was served on counsel for Plaintiffs, James B. Gambrell, Esq., Pravel, Gambrell, Hewitt, Kimball & Krieger, 1177 West Loop South, Suite 1010, Houston, Texas 77027 by first class mail on this 29th day of July, 1988.

01/PESO:001/C4

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL, INC.,	{	
Plaintiff,	{	
V.	{	C.A. No. H-87-0026
	{	
TWO PESOS, INC.,	{	
Defendant.	{	

ANSWER, DEFENSES, AND COUNTERCLAIMS

TACO CABANA INTERNATIONAL, INC., answers the asserted counterclaim, to wit Paragraphs 39-54 and states:

COUNTERCLAIM ANSWER

39. Admitted.

40. Admitted.

41. TACO CABANA INTERNATIONAL, INC. is without sufficient knowledge or information to form a belief as to the truth of the statements in this paragraph, and therefore denies the truth of such statements.

42. Denied.

43. TACO CABANA INTERNATIONAL, INC. is without sufficient knowledge or information to form a belief as to the truth of the statements in this paragraph, and therefore denies the truth of such statements.

44. Denied.

45. Denied.

46. Denied.

47. Denied.

48. See above.

49. Denied.

50. See above.

51. TACO CABANA INTERNATIONAL, INC. is without sufficient knowledge or information to form a belief as to the truth of the statements in this paragraph, and therefore denies the truth of such statements.

52. Denied.

53. Denied.

54. Denied.

PRAYER

The Court is respectfully requested to enter judgment that the counterclaim of Two Pesos is, in all regards, denied and further to deny all relief requested therein; further, the Court is respectfully requested to grant relief originally requested in the Complaint herein.

Respectfully submitted,

GUNN, LEE & JACKSON

By: _____
Ted D. Lee - Attorney in Charge
Lawrence E. Evans - Local Co-Counsel
Donald Gunn - On this response
711 Navarro, Suite 720
San Antonio, TX 78205
(512) 222-2336
Attorney for
TACO CABANA INTERNATIONAL,
INC.

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing COUNTERCLAIM ANSWER was enclosed in a postpaid envelope, properly addressed as follows to all counsel of record, and thereafter deposited in a post office or official depository under the care and custody of the U.S. Postal Service on this 3rd day of March, 1987:

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED
NO. P 454 302 562

Donald Gunn

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL,	X
INC., and TACO CABANA, INC.,	X
PLAINTIFFS,	X
	X
VS.	X
	X
TWO PESOS, INC.,	X
DEFENDANTS.	X

THE COURT'S FINAL INSTRUCTIONS TO THE JURY

I. GENERAL INSTRUCTIONS

A. Function of the Jury

Members of the jury, now that the evidence has been closed and the attorneys have had the opportunity to argue the case to you, it becomes my duty to give you the Court's instructions as to the law of the case, discuss with you your function as jurors, and perhaps discuss the evidence with you to some extent. You, the jury, are the fact finding arm of the court. In performing this function, you will weigh and consider the testimony and determine under the instructions given to you by the Court, what are the true facts of this case.

You, the jury, are the sole and exclusive judge of the facts. You should determine the facts without prejudice, fear, or favor and solely from a fair consideration of the evidence. You are not bound by any opinion which you may think I have about the facts in the case, for a determination of the facts is exclusively the function of the jury, and the Court has no desire to intrude on this function.

In connection with any statements or comments I made during the course of this trial, if any one or all of you were led to believe that I have any opinions about the facts of the case, the lawyers involved, or feel a certain way about the credibility of any witness, please dismiss from your mind any such beliefs. You should not attach any significance whatsoever to the fact that I asked some of the witnesses questions and did not ask others questions, nor should you attach any special significance to the questions that I did ask. I have no desire whatsoever to attempt in any way to influence your decisions.

However, insofar as I provide you with the rules of law governing this lawsuit, you are bound to follow them whether or not you agree with them. It would be a violation of your sworn duty to base your verdict upon any other view of the law than that which I give you.

B. The Role of the Jury

You, the jury, are the exclusive judges of the facts proved, of the credibility of witnesses, and of the weight to be given to their testimony.

C. Determination of Facts

You are to determine the facts in the case solely from the evidence in this case. The evidence consists of the testimony of the witnesses and the exhibits received into evidence. Questions asked by the lawyers and their statements in opening or closing arguments are not evidence, for the evidence consists solely of the witnesses' answers to the questions and the exhibits admitted into evidence. Counsel have, however, entered into agreements or stipulations of facts which are not in dispute, and you are to accept those facts as stipulated.

D. Types of Evidence From Which Facts are Established

There are, generally speaking, two types of evidence from which a jury may properly find the truth as to the facts of a case. One is direct evidence — such as the testimony of any eye-witness. The other is indirect or circumstantial evidence — the proof of a chain of circumstances pointing to the existence or non-existence of certain facts.

As a general rule, the law makes no distinction between direct and circumstantial evidence, but simply requires that the jury find the facts in accordance with the preponderance of all the evidence in the case, both direct and circumstantial. Any fact may be established by circumstantial evidence or direct evidence, or both. A fact may be established by direct evidence when proved by documentary evidence or by witnesses who saw the acts done or heard the words spoken. The fact may also be established by circumstantial evidence when the fact sought to be proved is fairly and reasonably inferred from other facts proved in the case. A fact established by circumstantial evidence is just as ~~probative~~ valid as

a fact established by direct evidence and should be given equal weight by the jury.

As an example of what is direct evidence and what is circumstantial evidence, suppose that an important issue for you as a jury to determine is whether it was raining at a particular time of the day. A witness in the case testifies that it was raining during a critical period involved in the case but that at the time the witness was in a home with the shades drawn and in a home in which no outside noises could be heard. The witness further testifies that a person entered the room wearing a wet raincoat. Since the shades were drawn and the room was built in such a manner that the witness could hear no outside noises, the witness could not see or hear or otherwise use any of his senses to determine whether it was actually raining. You jurors, if you felt the witness to be credible, could determine that the witness was correct and that it was raining outside at that time because of the circumstance of a person entering the room with a wet raincoat. In making that determination, you would be relying upon circumstantial evidence. In order to determine that it was raining outside at the time from any direct evidence, you would have to have heard testimony from a witness that actually raised the shades in the room and saw that it was raining outside or went outside and stood in the open air and felt the rain.

E. Determination of the Credibility of Witnesses

In addition to judging the facts of the case, it is the province of the jury to determine the credibility of each witness and the weight to be given to his testimony. By credibility, I mean believability. In weighing the testimony of each witness, the jury should consider the witness' relationship to the parties in this case, the witness' manner of testifying, the witness' candor, fair-

ness, and intelligence, and the extent to which the witness has been confirmed or contradicted, if at all, by other ~~credible~~ *credible* evidence. You may also consider the reasonableness and probability of the witness's testimony.

We normally think that if a witness tells a straight-forward story, if the witness seems to try to answer the questions clearly, concisely and fully, those are some indications that the witness is a credible witness. On the other hand, if the witness answers ambiguously or unclearly, if the witness' testimony does not seem to make sense, or is not in accord with our common experience, these are some indications that the witness' testimony should be taken with some reservation. You jurors will rely upon your own good judgment, your own common sense, and the experience you have gained as you have gone about your everyday affairs, in weighing the evidence and determining the weight to be given to it.

A witness may have been discredited or impeached by contradictory evidence, or by evidence that at other times the witness has made statements which are inconsistent with the witness's courtroom testimony. As a general rule, the earlier contradictory statements are admissible only to impeach the credibility of the witness and not to establish the truth of those earlier statement. If you believe any witness has been impeached and thus discredited, it is your exclusive province to give the testimony of that witness such credibility as you may think it deserves. If a witness has been shown knowingly to have testified falsely concerning any material matter, you have a right to distrust such witness's testimony in other particulars, or reject all the testimony of that witness, or give it such credibility as you may think it deserves.

F. Determination of the Credibility of Expert Witnesses

Some witnesses in this case have testified as experts concerning particular areas of knowledge. The testimony of an expert witness should be considered where the subject matter involved requires special study, training, or skill not within the realm of the ordinary experience of a layman. The fact that such a witness gives an expert opinion does not mean that that opinion is binding upon you, the jury, or that you are obligated to accept the expert witness' opinion as to what the facts are. You must determine, in light of all the evidence, the credibility and weight given to each expert witness's opinion. You the jury, may decide that the expert witness' opinion is not based on the facts or is outweighed by other evidence presented, or you may decide that the expertise, reasons, or assumptions upon which the expert witness based the opinion are not sound.

During the presentation of the Plaintiff's case, you heard testimony from Professor J. Thomas McCarthy who testified as an expert witness for Taco Cabana. Professor McCarthy testified as to the law concerning trade dress rights. It is the exclusive province of the judge to instruct the jury as to the law of the case. Therefore, I am instructing you to disregard the testimony of Professor McCarthy. You are instructed to give no weight or credibility to the testimony of Professor McCarthy *or any other witness of either party* as to the law in this case.

G. Deposition Testimony to be Given Consideration Equal to that of a Testifying Witness

During the trial of this case, certain testimony was shown or read to you by way of depositions. These depositions consisted of sworn written answers to questions which one or more of the

parties' attorneys asked the witness before trial. The testimony of a witness who for some reason cannot be present to testify from the witness stand may be presented in the form of such a deposition. That deposition testimony is entitled to the same consideration as live testimony from the witness stand, and thus, insofar as possible, you must judge its credibility, weigh it, and otherwise consider it in the same way as if the witness had been present and had testified from the witness stand.

H. Demonstrative Exhibits

The court has permitted certain maps, charts, and summaries to be used in connection with lawyers' opening and closing statements as well as the various witnesses's testimony. These demonstrative exhibits have been used by the lawyers or witnesses to explain their version of facts, disclosed documents and testimony which are in evidence in this case. Demonstrative exhibits are not in and of themselves evidence or proof of any facts. If any such demonstrative exhibit does not correctly summarize or explain facts of figures otherwise shown by the evidence in the case, ~~you~~ you should disregard it.

I. Attorneys Objections Not to be Considered

The lawyers have presented objections to some of the testimony or other evidence. It is the duty of a lawyer to object to evidence which he believes may not properly be offered. You should not be prejudiced in any way against a lawyer who makes objections, or against that lawyer's client. At times, the Court has sustained objections or directed that you disregard certain testimony or exhibits. You must not consider any evidence to which an objection has been sustained or which I have instructed you to disregard.

J. Preponderance of the Evidence

The measure of proof that is required in civil lawsuits such as this is what is called the preponderance of the evidence. As used in these instructions, "preponderance of the credible evidence" means the greater weight and degree of credible evidence before you. The Plaintiff has the burden of proving each essential element of its claims by a preponderance of the credible evidence. Likewise, the Defendant has the burden of proving its defenses ~~and each essential element of its counterclaims~~ by a preponderance of the credible evidence. To establish by a preponderance of the credible evidence means to prove that something is more likely so than not so. In other words, a preponderance of the credible evidence in the case means such evidence as, when considered and compared with that opposed to it, has more convincing force and produces in your minds a belief that what is sought to be proved is more likely true than not true.

K. Corporate Liability

A corporation can act only through living persons which are its agents or employees. An agent or employee of a corporation may bind the corporation by acts and declarations made while acting within the agent's or employee's scope of his authority or while acting in the ordinary course of his employment or in the ordinary course of the corporation's business.

Authority to act for a corporation in a particular matter, or in a particular way, may be inferred from the surrounding facts and circumstances shown by the evidence in the case. That is to say, authority to act for a corporation, like any other fact in issue in a civil case, need not be established by direct evidence, but may be established by indirect or circumstantial evidence.

Every act of every director, officer, employee, or other agent, on behalf of or in the name of a corporation, if done within the actual or apparent scope of their authority, is by law the act of the corporation itself.

II. STATEMENT OF THE CASE

Plaintiffs in this case are Taco Cabana International, Inc. and Taco Cabana, Inc., (referred to collectively as "Taco Cabana"). Both are Texas corporations with principal offices in San Antonio. The original principal owners in Taco Cabana, Inc., were two brothers, Felix and Mike Stehling. Today, the principal owners are Felix Stehling *and* his stepsons, Tom and Lynn Moody *and* Richard Cervera.

In 1978, Taco Cabana opened its first fast food restaurant. Thereafter, it started to develop a trade dress concept based in part on the original restaurant. Taco Cabana opened its second San Antonio restaurant in April 1983 using this trade dress concept and later opened a number of additional restaurants in San Antonio, Houston, Austin and elsewhere. Taco Cabana has also granted franchises in various parts of the country.

Defendant in this case is Two Pesos, Inc., a Texas Corporation with its principal office in Houston. The co-founders of Two Pesos were Marno McDermott and Jim Blacketer. Today, Marno McDermott is the Chairman of the Board of Two Pesos and Thomas Dietrich is the President. Blacketer holds no position within Two Pesos at this time but does own 5.4% of Two Pesos' outstanding stock.

Two Pesos opened its first restaurant in December 1985 and later opened a number of additional restaurants in Houston, Dal-

las/Fort Worth, Oklahoma City and elsewhere. Two Pesos has also granted franchises in various parts of the country.

Taco Cabana's claims against Two Pesos can be divided into two general categories. In the first category, Taco Cabana claims that the appearance of Two Pesos' restaurant is so similar to the Taco Cabana restaurants that customers are likely to be confused and that Two Pesos copies Taco Cabana's trade dress. Two Pesos denies these claims.

In the second category, Taco Cabana claims that Two Pesos wrongfully acquired Taco Cabana's proprietary information or trade secrets in the design and operation of Two Pesos' restaurants. Two Pesos denies that claim.

III. CONTENTIONS OF THE PARTIES

A. Contentions of the Plaintiffs

Plaintiffs Taco Cabana claim that since 1983 the public has come to associate them and their restaurant goods and services with a distinctive and unique fast food restaurant concept.

In the latter part of 1984 or early 1985, Marno McDermott and Jim Blacketer decided to start a fast food Mexican restaurant chain that Taco Cabana claims was based on its design. Taco Cabana claims that Jim Blacketer and Marno McDermott improperly obtained at least one set of Taco Cabana's architectural plans, had copies made and distributed all or portions of it to at least its architectural firm, its general building contractor and its kitchen designer. Taco Cabana claims that the intent of the creators of Two Pesos was to copy the Taco Cabana concept which had proved so successful.

Taco Cabana further claims that in 1985, Two Pesos interviewed at least two of Taco Cabana's general store managers and hired one of them with the intention that the manager disclose confidential proprietary information to Two Pesos concerning Taco Cabana's business operations systems, the sources of Taco Cabana's supplies, and other information which bore on the success of Taco Cabana operations. Taco Cabana also claims their former store manager disclosed this information.

Since December 1985, Two Pesos has opened twenty-six restaurants. Taco Cabana claims these Two Pesos restaurants are likely to cause confusion with Taco Cabana's fast food cafes. Two Pesos has also granted companies the right to develop about 95 stores in various parts of the United States. Taco Cabana claims the existing Two Pesos restaurants and franchise stores employ a trade dress that is confusingly similar to their restaurants, and will continue to do so unless they are required by law to modify their trade dress.

Taco Cabana claims that Two Pesos has received substantial revenues from the operation of its company and franchise restaurants, much of which would have come to Taco Cabana but for Two Pesos' alleged misappropriation and unfair competition in the marketplace.

Taco Cabana claims that Two Pesos obtained improper access to Taco Cabana's trade secrets, methods and format of operation, and other proprietary information. Taco Cabana claims Two Pesos' acts are unfair competition and are likely to lead the public to believe that the goods and services of Two Pesos originated from or are associated with Taco Cabana.

~~Taco Cabana claims that Two Pesos obtained improper access to Taco Cabana's trade secrets, methods and format of operation, and other proprietary information. Taco Cabana claims Two Pesos' acts are unfair competition and are likely to lead the public to believe that the goods and services of Two Pesos originated from or are associated with Taco Cabana.~~

Taco Cabana further claims that Two Pesos' alleged misappropriation of Taco Cabana's trade dress and proprietary information has caused them serious damage and injury. Taco Cabana claims to have been foreclosed from a number of lucrative markets and to have incurred a substantial amount of lost opportunities due to Two Pesos' alleged wrongful actions.

Taco Cabana's *expert Gelb* estimates damages in lost profits in Houston are at least ~~\$4,716,000~~ \$4,384,000. Taco Cabana also claims to have suffered lost income because of Two Pesos rapid development (29 restaurants in less than 33 months). If Two Pesos was treated as a franchisee for the purpose of computing damages, Taco Cabana claims a reasonable estimate of damages due to loss of income would be at least ~~\$13,288,000~~ \$11,846,400. *The Gelb total is \$16,230,400. Brinker estimated damages as being between \$12,600,000 and \$20,500,000; and Romano set damages between \$22,000,000 and \$35,600,000.*

Taco Cabana claims that they were further damaged by other factors including lost value of Taco Cabana's stock, public perception of Taco Cabana as the copycat, competition for prime real estate, and lost opportunities in markets outside of Houston.

Taco Cabana claims that Two Pesos has intentionally and willfully misappropriated Taco Cabana's trade dress and proprietary information. Taco Cabana claims that such intentional and willful

acts support an award for a substantial increase in the damages in order to punish Two Pesos for their acts.

B. Contentions of the Defendant

1. Regarding The Trade Dress Issues

Two Pesos claims it sufficiently and reasonably differentiated itself from Taco Cabana and that the Two Pesos name is not likely to be confused with Taco Cabana. Two Pesos claims that their signs inside and outside the restaurant, their blue building color, decor, building layout and design, all distinguish Two Pesos from Taco Cabana.

Two Pesos claims that Taco Cabana's first restaurant, a converted Dairy Queen, demonstrates that success is dependent on factors other than the features that Taco Cabana asserts as trade dress in this action. Two Pesos claims that the restaurants that were opened by Taco Cabana in 1983 through at least 1985 had different overall trade dress than is asserted in this case, including, but not limited to, either no outside patios or small outside patios, blue awnings, no outside umbrellas and no striping at the top of its buildings.

Two Pesos further claims that up until the time that Two Pesos opened its first restaurant in December of 1985, Taco Cabana had not established any significant secondary meaning in the trade dress asserted in this case, in part because of the modifications made to the asserted trade dress before and after that time.

Two Pesos claims that Taco Cabana destroyed whatever secondary meaning it might have had when ownership of the former Taco Cabana restaurants was split. A group headed by Michael Stehling took ownership of four of the existing nine Taco Cabana

restaurants under a different name, TaCasita, but with the same trade dress asserted here. Therefore, Two Pesos claims that the consuming public cannot associate the asserted trade dress with only Taco Cabana, but that the public will necessarily associate the asserted trade dress with TaCasita, a different ownership entity, as well as with Taco Cabana.

Two Pesos claims that Taco Cabana forfeited any rights of exclusivity to the asserted trade dress by permitting TaCasita to use the same trade dress. Two Pesos claims that TaCasita operates independently of Taco Cabana and Taco Cabana does not and cannot control the quality of the products or services of TaCasita or the menu items of TaCasita and likewise, TaCasita does not and cannot control the quality of the products and services of Taco Cabana or the menu items of Taco Cabana.

Two Pesos claims that Taco Cabana has had several different restaurant looks, has changed its original trade dress, continues to do so, and has agreed to change its trade dress in the future, thereby preventing any secondary meaning.

Two Pesos further claims that any features in a Taco Cabana restaurant that were adopted by Two Pesos were rightfully adopted because the law encourages copying of functional features to foster competition. Two Pesos asserts that any features that are common between Two Pesos and Taco Cabana are features that are either functional or not distinctive.

Two Pesos claims that Taco Cabana has no secondary meaning associated with the trade dress asserted in this lawsuit, that there has been no significant actual confusion of reasonable and prudent consumers, and that there is not a likelihood that a sig-

nificant portion of consumers are likely to be confused that a Two Pesos restaurant is a Taco Cabana restaurant.

Two Pesos claims that they have never intended to cash in on the goodwill of Taco Cabana and that Taco Cabana is not entitled to any monetary recovery because it has no legally protectable rights that have been infringed by Two Pesos, no substantial actual confusion has existed, and any confusion that has existed has resulted from similarities in functional features or from reasons that are not based on the trade dress asserted in this case.

2. Regarding The Trade Secret Issues

Two Pesos claims that Taco Cabana has no protectable trade secrets because it took no precautions to assure confidentiality or secrecy, and that Two Pesos did not receive any confidential trade secret information of Taco Cabana under any circumstances that would create an obligation of confidence or restriction on use.

Two Pesos claims that architectural plans for Taco Cabana restaurants are available for inspection and copying by the public and that information contained within documents available for public inspection is not a trade secret. Two Pesos claims they were given a copy of architectural drawings of one Taco Cabana restaurant by a third party who was under no obligation of confidentiality to Taco Cabana, and therefore Two Pesos came into the possession of Taco Cabana architectural drawings lawfully.

IV. ADMITTED FACTS

The following are facts admitted to by all parties. You are to consider the following to be undisputed.

The following restaurants opened under the name Taco Cabana on the dates indicated.

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
1	9/21/78	3310 San Pedro San Antonio, Tx. 78212	Company Owned
2	4/14/83	5630 Wurzbach San Antonio, Tx. 78238	Now TaCasita
3	3/9/84	8629 Perrin Beitel San Antonio, Tx. 78217	Company Owned
4	8/23/84	1633 S.W. Military Dr. San Antonio, Tx. 78221	Now TaCasita
5	7/1/85	4205 Fredericksburg San Antonio, Tx. 78201	Company Owned
6	10/1/85	15925 San Pedro San Antonio, Tx. 78232	Company Owned
7	1/31/86	8415 Research Austin, Tx. 78758	Now TaCasita
8	1/3/86	9603 San Pedro San Antonio, Tx. 78216 (San Pedro/410)	Company Owned
9	2/28/86	5540 Richmond Houston, Tx. 77056	Now TaCasita

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
10	5/14/87	711 E. Ben White Austin, Tx. 78704	Company Owned
11	7/22/87	3071 W. Northwest Hwy Dallas, Tx. 75220	Company Owned
12	10/14/87	3923 Lemmon Avenue Dallas, Tx. 75219	Joint Venture
13	10/28/87	700 N. Loop West 610 Houston, Tx. 77701	Company Owned
14	11/25/87	135 Long Street San Marcos, Tx. 78666	Company Owned
15	12/5/87	9220 Gulf Freeway Houston, Tx. 77017	Franchise
16	2/2/88	1777 Lee Trevino El Paso, Tx. 79935	Franchise
17	2/22/88	6890 Harrisburg Houston, Tx. 77011	Company Owned
18	3/14/88	6600 Camp Bowie Fort Worth, Tx. 76116	Joint Venture
19	4/25/88	6615 E. Northwest Hwy Dallas, Tx. 75231	Joint Venture

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
20	7/18/88	5866 N. Mesa El Paso, Tx. 79912	Franchise

Two Pesos has opened the following restaurants:

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
1	12/10/85	1611 Gessner Houston, Texas (Gessner/Eddystone Dr.)	Company Owned
2	2/17/86	8101 S. Main Houston, Texas	Company Owned
3	5/1/86	Galveston Place Shopping Center Galveston, Texas	Company Owned
4	6/2/86	8902 Richmond Houston, Texas	Company Owned
5	6/24/86	3909 Kirby Houston, Texas (Kirby/SW Freeway)	Company Owned
6	8/11/86	10 West FM 1960 Houston, Texas (I-45/Northwood Shopping Center)	Company Owned

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
7	10/19/86	8900 Wadsworth Blvd. Denver, Colorado	Franchise
8	2/26/87	Highway 290 Houston, Texas	Company Owned
9	4/21/87	Westheimer/Nantucket Houston, Texas	Company Owned
10	5/18/87	4355 Camp Wisdom Road Camp Wisdom Rd/ Cockrell Hill Dallas, Texas	Company Owned
11	6/1/87	Military Highway Norfolk, Virginia	Franchise
12	6/20/87	1505 N. Collins Arlington, Texas Arlington, Texas	Company Owned
13	8/19/87	12475 E. N.W. Highway Dallas, Texas	Company Owned
14	9/2/87	11079 Westheimer Westheimer/Wilcrest Houston, Texas	Company Owned
15	9/16/87	3700 S. Cooper Arlington, Texas	Company Owned
16	10/23/87	705 W. Bay Area Blvd. Webster, Texas	Company Owned

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
17	10/29/87	6695 Hillcroft Houston, Texas	Company Owned
18	12/16/87	Mesa Ave. at I-40 El Paso, Texas	Company Owned
19	1/8/88	Meridian Ave. at NW Hwy Oklahoma City, Oklahoma	Company Owned
20	1/12/88	7400 FM 1960 West Houston, Texas	Company Owned
21	1/28/88	Greenville at Alta Dallas, Texas	Company Owned
22	2/15/88	74th St. at Pennsylvania Oklahoma City, Oklahoma	Company Owned
23	3/31/88	Northwestern Ave. at I-44 Oklahoma City, Oklahoma	Company Owned
24	4/1/88	I-45 at Tidwell Houston, Texas	Company Owned
25	4/11/88	7669 Grapevine Hwy. (North Richland Hills) Fort Worth, Texas	Company Owned
26	4/17/88	412 Meridian at Reno Ave. Oklahoma City, Oklahoma	Company Owned

No.	Date Opened	Location	Type (Company owned Franchised Or <u>Joint Venture</u>)
27	4/28/88	1735 E. Southern Ave. Tempe, Arizona	Company Owned
28	6/24/88	1855 Piedmont Ave. NE Atlanta, Georgia	Type (Company owned Company Owned
29	8/6/88	Second Restaurant In Norfolk, Virginia	Franchise

V. QUESTIONS AND APPLICABLE LAW

You will be asked to return your verdict in this case in the form of answers to several questions concerning the fact issues in this case. These questions are numbered, and you will notice that certain questions on the special verdict form need to be answered only if you give a particular answer to some earlier question. For example, if you answer the first question "NO", you need not answer question number 2; but if you answer question number 1 "YES", you go on to question 2.

I will now go over the questions on the Special Verdict Sheet and give you instructions on the law applicable to your deliberations on each of those questions. Of course, you are to consider all my instructions as a whole and not single out any particular instruction.

In answering the questions on the Special Verdict Sheet, you are instructed that you are to make your findings in accordance

with the preponderance of the evidence in this case, and the law as given to you in these instructions.

A. Question Number 1

Taco Cabana is seeking to recover damages from Two Pesos for trade dress infringement. You must determine whether or not Taco Cabana has a trade dress, whether it is protectable, then, whether it has been infringed by Two Pesos.

Question Number ~~One~~ 1 asks you to determine whether Taco Cabana has a trade dress. You are instructed that "trade dress" is the total image of the business. Taco Cabana's trade dress, may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniforms and other features reflecting on the total image of the restaurant.

B. Questions Number 2 through 4

Like a trademark or service mark, trade dress is used to identify the restaurant with the products it serves. It is through actual use of a trade dress in connection with a product or service that one establishes protectable trade dress rights.

Questions Number 2 through 4 call upon you to determine whether Taco Cabana's trade dress is protectable. In order to determine whether Taco Cabana has protectable rights in its trade dress you must consider:

1. functionality

2. distinctiveness
3. secondary meaning

I will instruct you as to what each of the above terms means and how they are related to each other. However, you must remember that in considering these questions, you are to consider the trade dress as a whole rather than individual elements. That is, you must analyze the overall trade dress from the standpoint of functionality, distinctiveness and secondary meaning.

Question Number 2 asks you to determine whether Taco Cabana's trade dress, taken as a whole, is functional or non-functional. The doctrine of functionality is basically an attempt to distinguish between design features of the restaurant which serve a purely ~~functional~~ *functional* purpose, as opposed to those features that are merely arbitrary. The law allows the copying of functional features in the public interest of enhancing competition. Therefore, a trade dress which is functional may not be protected.

A trade dress or design feature is functional if its purpose is to merely facilitate the operation of the restaurant. In other words, if the trade dress is designed merely to have a useful function aimed at utility, it is considered functional and not entitled to protection. On the other hand, where a trade dress or design feature is not significantly related to the utilitarian function of the restaurant, but is merely an arbitrary embellishment primarily adopted for the purpose of identification and individuality, the trade dress or design feature is non-functional and is entitled to protection.

If Taco Cabana's overall trade dress is arbitrary and not selected to serve purely a functional purpose, it is protectable. Even if the

trade dress is made up of individual elements, some of which serve a functional purpose, so long as the combination of these individual elements which define Taco Cabana's trade dress is arbitrary, *it is protectable*. On the other hand, if you find that Taco Cabana's trade dress taken as a whole must be used by others in order to compete in the Mexican fast-food restaurant business, then you should find that Plaintiff's trade dress is functional and not protectable.

For example, each individual element of a house (such as the doors, windows, roofs, floors, walls, etc.) has a functional purpose; however, these elements (along with wallpaper, rugs, drapes, decorations and the like) can be arranged in a number of arbitrary ways, creating various interiors and elevations which give a house its own unique image or appearance. If you find that Taco Cabana has combined a number of functional and non-functional elements in an arbitrary manner such that the restaurant's trade dress, taken as a whole, is not functional, ~~when~~ *then* Taco Cabana's trade dress may be protectable.

In considering functionality of the trade dress you will consider individual design features of the restaurant. However, in determining whether Taco Cabana's trade dress as a whole is functional or non-functional, you are instructed to focus your consideration on the total image and not the functionality of individual elements. In other words, the inquiry into whether Taco Cabana's trade dress is functional or non-functional should not be addressed to whether individual elements fall within the definition, but whether the whole collection of elements taken together are functional or non-functional.

Question number 3 asks you to determine whether Taco Cabana's trade dress is inherently distinctive. Distinctiveness is a

term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants *and it is not descriptive and not functional*, then you should find that Taco Cabana's trade dress is inherently distinctive. If it is shown that Taco Cabana's trade dress does not distinguish its products and services from those of other restaurants, then you should find that Taco Cabana's trade dress is not inherently distinctive.

Question number 4 asks you to determine whether Taco Cabana's trade dress has acquired secondary meaning. The prime element in a finding of secondary meaning is a mental association in the mind of the public between the products or services being offered and a particular source of that product or service.

In determining whether Taco Cabana's trade dress has acquired secondary meaning, you ~~must~~ *may* consider among other things, the length and manner of its use, promotion and advertising involving the trade dress, the volume of sales, instances of actual confusion, and survey evidence. To establish secondary meaning Taco Cabana must show that customers purchase their service and products because the presence of the claimed trade dress indicates to the customers a connection between the service or products and Taco Cabana.

You are instructed that Taco Cabana's trade dress has "secondary meaning" if it has acquired distinctiveness as a result of extensive use by Taco Cabana, such that the public would recognize goods or services associated with that trade dress as originating from Taco Cabana. In order to find that Taco Cabana's trade dress has acquired secondary meaning, Taco Cabana must have shown

that a significant number of the public associated the trade dress with Taco Cabana.

If you find that Taco Cabana has a trade dress, that the trade dress taken as a whole is non-functional, and that the trade dress is inherently distinctive or has acquired secondary meaning, then Taco Cabana has proven its claim that it has a protectable trade dress.

C. Question Number 5

The central inquiry in a trade dress infringement action is whether the Defendant is passing off his goods or services as those of the Plaintiff by virtue of substantial similarity between the two, leading to confusion on the part of potential customers. Question Number 5 asks you to determine whether the alleged infringement of Taco Cabana's trade dress creates a likelihood of confusion on the part of ordinary customers as to the source of ~~the goods or association of the restaurant's goods or services~~.

Taco Cabana must prove, as the essential element of its action for trade dress infringement, that the alleged infringement creates a likelihood of confusion on the part of ordinary customers as to the source of the goods being offered. If you find that a likelihood of confusion exists between Taco Cabana and Two Pesos as to the source *or association* of the products and services offered, then Taco Cabana has proven its claim that its trade dress has been infringed by Two Pesos.

In your determination of whether there is a likelihood that customers might associate or confuse a Two Pesos restaurant with a Taco Cabana restaurant you should consider the following:

- (a) the type of trade dress at issue;
- (b) the similarity between Taco Cabana's claimed restaurant trade dress and Two Pesos' restaurants;
- (c) the similarity of products or services provided by Taco Cabana and Two Pesos;
- (d) whether Taco Cabana's and Two Pesos' businesses are in market competition for the same customer;
- (e) whether Taco Cabana and Two Pesos are likely to use the same advertising media;
- (f) Two Pesos' intent in its adoption of its restaurant trade dress; and;
- (g) instances of actual confusion.

One of the factors you are to consider in determining a likelihood of confusion is the similarity between Taco Cabana's trade dress and Two Pesos' trade dress. Similarity of appearance is to be determined on the basis of the overall effect of the parties' trade dress.

Another factor you must consider in determining whether a likelihood of confusion exists is the intent of Two Pesos in using the trade dress. The intent of Two Pesos is a critical factor in determining whether there is a likelihood of confusion. You are instructed that should you find, from the evidence presented, that Two Pesos adopted Taco Cabana's trade dress with the intent of receiving benefit from Taco Cabana's reputation or goodwill, this fact alone may justify an inference of confusing similarity between Taco Cabana's and Two Pesos' restaurants.

Actual confusion is another factor you are to consider in determination of a likelihood of confusion. You are instructed to give special consideration to evidence presented regarding actual confusion. The existence of instances of actual confusion is the best evidence of a likelihood of confusion and by itself may support a finding of a likelihood of confusion.

D. Question Number 6

Question number 6 asks you to determine whether Taco Cabana lost its protectable trade dress rights by failure to exercise supervision and control over its licensee, TaCasita, to make sure that the quality of the goods or services are not inferior to the goods sold or services provided by Taco Cabana.

Protectable trade dress rights may be lost by certain conduct of the owner. When the owner of a claimed trade dress permits or licenses another to use the trade dress, the owner has a duty to exercise *enough* supervision and control over the licensee to make sure that the quality of the goods or service of the other party are not inferior to the goods sold or services provided by the trade dress owner. Failure to ~~exercise~~ *maintain the quality by exercising adequate* supervision and control over the licensee *may* results in a loss of trade dress rights. *You may consider the prior relationship of the Stehling brothers and their mutual awareness of each other's quality control procedures in determining the adequacy of the supervision.*

Defendant Two Pesos has raised the defense of loss of trade dress rights by Plaintiff Taco Cabana as a result of the cross-license agreement between the Stehling brothers. Two Pesos claims that the license agreement failed to adequately provide for control to assure that goods or services offered under the claimed

trade dress are of equal quality. Two Pesos has the burden to prove this defense by a preponderance of the evidence.

If you find that Taco Cabana did exercise *adequate* supervision and control over TaCasita ~~and~~ to make sure the quality of its goods or services are not inferior to those of Taco Cabana, then Two Pesos has not proven its defense of loss of trade dress rights. ~~On the other hand, if~~ If Taco Cabana has not lost its trade dress rights and those rights have been infringed by Two Pesos, then you must determine whether Taco Cabana was damaged by Two Pesos' infringement. Question Number 7 asks you to make that determination.

E. Question Number 8 through 13

Taco Cabana has alleged that Two Pesos misappropriated Taco Cabana's proprietary information or trade secrets. Two Pesos had denied these allegations.

Two Pesos has raised the defense that the alleged trade secrets claimed by Taco Cabana do not constitute trade secrets, as the subject matter of the alleged proprietary information is generally known in the industry. Further, Two Pesos raised the defense that Plaintiff has waived any claim of trade secret by failing to take adequate measures to keep such information secret.

You are instructed that a trade secret is a formula, pattern, device or compilation of information used in one's business which gives the business an opportunity to obtain an advantage over competitors who do not know or use it. A trade secret may include certain types of customer and supplier lists, methods of doing business, a process, equipment, and blueprints and plans. How-

ever, matters of general knowledge in an industry may not be protected by a party by claiming it is a trade secret.

You are instructed that the law requires that a plaintiff prove, by a preponderance of the evidence, the following elements in an action for trade secret misappropriation:

- (a) the existence of a trade secret;
- (b) the breach of a confidential relationship or the improper discovery of a trade secret;
- (c) the use of a trade secret; and
- (d) that the plaintiff has been damages [sic] as a result of the use of the trade secret.

Question number 8, 9 and 10 asks you to determine whether a trade secret exists. ~~you~~ You are instructed to answer these questions by referring to the definition of trade secret given to you above *but recognizing that the law does not require absolute secrecy and that the filing of plans with a city does not make them public information.*

Two Pesos will be held liable for the use of Taco Cabana's trade secret if Two Pesos discovers the secret by improper means, or the disclosure or use constitutes a breach of confidence. Question Number 11 asks you to determine whether Two Pesos breached a confidential relationship or discovered a trade secret of Taco Cabana improperly.

You are instructed that the discovery of another's trade secret by improper means subjects that person to liability. In general,

improper means are means which fall below the generally accepted standards of commercial morality and reasonable conduct. What constitutes improper will always be dependent upon the time, place and circumstances of a particular case. However, it may be generally stated that improper conduct is that which appropriates a trade secret through deviousness under the circumstances.

One is liable for disclosure or use of a trade secret (1) if the secret is discovered by improper means or (2) the disclosure constitutes a breach of confidence. You are instructed that the term "confidential relationship" means a form of relationship between parties where the parties know or should know there is confidence and special trust.

Question Number 12 asks you to determine whether Two Pesos used Taco Cabana's architectural plans, kitchen equipment layout and design, or kitchen and restaurant operating procedures.

Question Number 13 asks you to determine whether Taco Cabana was damaged as a result of Two Pesos' use of Taco Cabana's architectural plans, kitchen equipment, layout and design, or kitchen and restaurant operating procedures.

F. Questions Number 14 through and 15

Questions Number 14 ~~through~~ and 15 deal with damages.

The fact that I am instructing you on the subject of damages does not mean that Taco Cabana is or is not entitled to recover damages. I am expressing no opinion one way or the other. These instructions are only to guide you if you find from a

preponderance of the evidence that Taco Cabana is entitled to recovery of damages.

Taco Cabana has the burden of establishing the amount of actual damages, if any, that were suffered. Damages must be determined with reasonable certainty from the evidence presented. Mathematical precision need not be shown, however, you are not to guess or speculate as to damages.

If you answered Question Number ~~12~~ 13, "YES", you are asked to answer Question Number 14.

Question Number 14 asks you to determine the value to Taco Cabana of the trade secret or secrets misappropriated by Two Pesos.

If you answered questions number ~~4 through~~ 7 "YES", you have found from a preponderance of the evidence that Taco Cabana has a trade dress which is protectable and which was infringed by Two Pesos.

A finding of trade dress infringement does not automatically entitle Taco Cabana to damages. In any determination of remedies to be awarded Taco Cabana, you must review the nature of the conduct of the parties.

Taco Cabana must show that it has suffered actual damages to be awarded damages. Actual damages may include damage to Taco Cabana's reputation, lost profits and lost income.

A. Lost Profits

In arriving at the amount of the award, you should include any damages suffered by Taco Cabana because of lost profits; that is

to say profits which Taco Cabana would have made, but for Two Pesos' unlawful conduct.

Taco Cabana presented evidence on lost profits. It is Taco Cabana's assertion that it has been effectively precluded from establishing a greater presence, particularly in the Houston market, as a result of the "head start" Two Pesos received from the alleged trade dress infringement.

If you find, from a preponderance of the evidence in the case, that the damages to Taco Cabana, such as a loss in profits, was proximately caused by Two Pesos' unlawful conduct, then the fact that it may be difficult to precisely determine Taco Cabana's lost profits should not affect Taco Cabana's recovery, particularly if Two Pesos' conduct caused the difficulty in determining the precise amount.

On the other hand, Taco Cabana is not ~~the~~ to be awarded purely speculative damages. An allowance for lost profits may be included in the damages awarded only where there is some reasonable basis in the evidence for determining that Taco Cabana suffered lost profits, even though the amount of such loss is difficult to ascertain.

B. Lost Income

Taco Cabana presented damage models which treated Two Pesos' company-owned stores and Two Pesos' franchisees as if they were franchisees of Taco Cabana.

If you find, from a preponderance of the evidence, that damages to Taco Cabana, resulting in a loss of income, were proximately caused by Two Pesos' unlawful conduct, then again you are instructed that the fact that it may be difficult to precisely

determine Taco Cabana's recovery *should not affect Taco Cabana's recovery*, particularly if Two Pesos' conduct caused the difficulty in determining the precise amount.

You are again cautioned that Taco Cabana is not to awarded purely speculative damages. An allowance ~~for~~ for lost income may be included in the actual damages awarded only where there is some reasonable basis in the evidence for determining that Taco Cabana suffered lost income, even though the amount of such loss is difficult to ascertain.

C. Loss of Goodwill

In determining general compensatory damages, you may consider whether Taco Cabana suffered any measurable loss to its goodwill.

If you find that Taco Cabana's goodwill has been damaged by injury to its general business reputation, you may assess such compensatory damages as were shown by the evidence. The measure of Taco Cabana's damage is the difference between such goodwill before and after the acts of Two Pesos.

IV. [sic] THE VERDICT

Ladies and gentlemen, the court is not only reading these instructions to you but they are written and you will be permitted to take a copy with you to the jury room. I wish to emphasize to you that every single sentence and word of these instructions is important in your deliberations, and you should not, and I order you not to, attach any particular significance to any particular part or any particular sentence or word of the instructions. It should be considered by you as a whole and your deliberations of the facts

should be conducted within the context of the law as given to you in the entirety of these instructions.

Keeping in mind each and every one of the instructions and definitions contained in this charge and applying each of them to the facts of this case as you find the facts to be, you will answer the questions on the verdict sheet attached to these instructions. The answers to these questions must be based upon what you have found to be *facts based on* a preponderance of the evidence.

I further instruct you, ladies and gentlemen, as to your verdict and as to each of the questions I have asked you, you must agree to your verdict and to the answer to each of the questions asked.

This concludes what I have to say to you, ladies and gentlemen. You may take these instructions with you to the jury room, as well as the exhibits which the court has admitted into evidence. Attached to these instructions are the questions that the court asked you. You will write your answer to each of these questions. The answer sheet will be signed by the foreperson and, at the conclusion of your deliberations, returned to the court along with these instructions. _____, I believe I will ask you to serve as foreperson of our jury, if you please.

DATE

FOREPERSON

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
September 26, 1988
9:30 a.m.

10 VOLUME I
11

12 TRANSCRIPT OF VOIR DIRE PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15

16
17
18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

21
22
23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[THE DISTRICT COURT]

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Two Pesos has brought counterclaims against Taco Cabana claiming that Taco Cabana hampered Two Pesos' ability to compete by improperly bringing this lawsuit and by interfering in prospective contractual relationships between Two Pesos and at least one prospective franchisee. Taco Cabana denies that it has done anything improper.

Two Pesos has also brought a counterclaim seeking a declaration that Taco Cabana's trade dress is not protectable. Taco Cabana denies that claim.

Now, basically and generally speaking, that's what the lawsuit is about. Both of these companies are engaged in the fast food Mexican food business.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Taco Cabana International, Inc.,	§	
and Taco Cabana, Inc.	§	
Plaintiff,	§	
	§	
vs.	§	C.A. No. H-87-0026
	§	
Two Pesos, Inc.,	§	
Defendant.	§	

ORDER

Pursuant to Rule 58 of the Federal Rules of Civil Procedure, it is hereby:

ORDERED, ADJUDGED and DECREED that the Jury's October 26, 1988, Special Verdict awarding \$150,000 to Taco Cabana for Two Pesos' misappropriation of its trade secrets and \$934,300 to Taco Cabana for Two Pesos' infringement of Taco Cabana's trade dress is entered this date. It is further

ORDERED, ADJUDGED and DECREED that having determined from the testimony of the witnesses and from the evidence presented during the trial that Two Pesos intentionally and deliberately infringed Taco Cabana's trade dress, Taco Cabana is awarded damages of \$1,868,600 for trade dress infringement along with the \$150,000 for trade secret misappropriation. The total damage award is \$2,018,600. It is further

ORDERED, ADJUDGED and DECREED that all the following changes be made to all Two Pesos' restaurant [sic] in operation in Texas as of the date of this Final Judgment:

(1) Exterior - Install a step-up or other roofline structure which eliminates the "step-down" effect between the two box silhouette structures as well as the drive-through roofline (make all roof elevations of the same height).

(2) Exterior - Eliminate the stripes around the top of the building and use only white neon lighting if any neon lighting is used.

(3) Exterior - Change to a solid color awning by painting existing awnings or replacing them with solid color awnings.

(4) Exterior - Install at least three false or painted windows on the exterior side walls of the restaurants or, alternatively, use the trade dress of Two Pesos' Phoenix store on the side walls of the restaurants.

(5) Interior - Paint the front face of the pickup counter and both sides of the wall between the interior dining and the interior patio white or the grey/green color used in the Two Pesos Tidwell Street restaurant in Houston. It is further

ORDERED, ADJUDGED and DECREED that Two Pesos display a sign both on the interior and exterior of all Two Pesos restaurants which states the following:

NOTICE

TACO CABANA originated a restaurant concept which Two Pesos was found to have unfairly copied. A Court Order re-

quires us to display this sign to inform our customers of this fact to eliminate the likelihood of confusion between our restaurants and those of TACO CABANA.

These signs shall have one inch black letters on a white background. The exterior sign shall be prominently placed in the area of the customer's entrance and the interior sign shall be prominently placed in the ordering area. Both signs shall be in place in all Two Pesos restaurants within 30 days of this Final Judgment and shall remain in place for at least one year. It is further

ORDERED, ADJUDGED and DECREED that all of the above changes be completed within eighteen months on Two Pesos' restaurants in operation in Texas as of the date of the Final Judgment and that all of the above changes be completed on existing Two Pesos' restaurants in Texas at the rate of at least ten restaurants per six months beginning with the Houston Two Pesos' restaurants. It is further

ORDERED, ADJUDGED and DECREED that with respect to any Two Pesos' restaurants which are not yet in operation as of the date of this Final Judgment and, before any such stores commence operation, that all of the changes (1) through (5) above be made in addition to all of the following changes:

(7) Exterior - Make the outside doors flush with the exterior walls or with an exterior projecting rectangular vestibule.

* (6) — missing.

(8) **Exterior** - Eliminate garage doors on two of the three sides between inside and outside patios. This permits an exterior patio opening fully on the side where the garage doors are located. The side having the garage doors is optional. As an alternative to the elimination of the garage doors, design the interior patio in a shape other than a square or rectangle, such as circular, elliptical or the like (~~see~~, e.g., the shape of the Sombrero Rosa inside patio).

(9) **Interior** - Eliminate the oblique order counter and install it parallel to or at right angles to the sides of the building. It is further

ORDERED, ADJUDGED and DECREED that the Defendant shall report in writing to the Court the progress of all the changes ordered to existing restaurants on a quarterly basis until all such changes to Defendant's company and franchise restaurants in operation in Texas as of the date of this Final Judgment have been completed. It is further

ORDERED, ADJUDGED and DECREED that having determined that this case is exceptional, in view of the deliberate infringement and misappropriation of Taco Cabana's trade dress by Defendant Two Pesos, Plaintiffs are awarded their attorney's fees in the prosecution of their trade dress claims and in defense of Defendant's dismissed counterclaims, the amount of such attorney's fees to be determined at a hearing set for January 23, 1989, at 9:30 a.m. at Courtroom No. 6, 515 Rusk, Houston, Texas.

Signed this 30th day of December, 1988, at Houston, Texas.

s/ John V. Singleton
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Taco Cabana International,
Inc., and Taco Cabana, Inc.

versus

Two Pesos, Inc.

Civil Action
No. H-87-0026

Houston, Texas
September 27, 1988
9:30 a.m.

VOLUME II

TRANSCRIPT OF TRIAL PROCEEDINGS

BEFORE

THE HONORABLE JOHN V. SINGLETON, JR.

AND A JURY

COURT REPORTER:

SUZANNE W. FORET
515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

PROCEEDINGS RECORDED BY STENOGRAPHIC
MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[NORMAN BRINKER]

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3 Q. Based on your experience, Mr. Brinker, what makes for a
4 successful restaurant concept?

5 A. Gosh, I've had a lot of people ask me that. My standard
6 answer is I say, "Well, I can tell you some things that might
7 not be so good. But get it open and get it operating and then
8 I'll tell you whether it's successful."

9 It's very difficult. It's very difficult. There's a
10 magic.

11 Take your own individual situation. You look around
12 at the restaurants you go to. Some you enjoy. You can't quite
13 put your finger on it, but you know some things. You know that
14 it will be consistent. You know you'll have good price value.
15 You know the people will be friendly. You know the food will
16 be good. You know the restaurant and facility will be clean.
17 Those things you know.

18 But those restaurants that are really successful, it
19 has something else about it. It's a place where you feel
20 comfortable. It's a place I like. It's a place I enjoy. And
21 when I leave, for whatever reasons, my total experience is well
22 worth the amount of money I've paid for that experience.

23 Q. How does that relate to trade dress as you understand that
24 term?

25 A. Well, trade dress is the total concept or precept that you

1 experience. It's the method of service, the ambiance. It's
2 the way the employees look. It's how the food is delivered.
3 It's how the food is prepared. It's the palatalizing of the
4 food. And certainly the location. Color.

5 Color is interesting because in today's world you
6 cannot say, we'll have a certain color because you'll go from
7 location to location and city to city. They may say, no, we
8 have city motif and we want you to follow this.

9 Even without that, you'll still try to have a
10 similarity sufficient to let people know that this belongs to
11 this particular family.

12 For example, in Chili's we have plaster, plaster
13 buildings, gray buildings, white buildings, although we try to
14 get the green brick. But we have enough similarity
15 nonetheless.

16 Carillon Center is quite different. It's in a center.
17 It's quiet. It's not free standing. That's not our first
18 choice.

19 But we like the personal identification, which makes
20 our trade dress stronger. In many cases you can't do that.
21 But you still have enough for people to understand who you are.

22 Q. Are you talking about outside only or inside?

23 A. Inside is easier. Inside you can do a little better job.
24 You may have to have a little different configuration because
25 of the dimensions if you're going in an inland building. It's

1 different from a free standing building. But it's both inside
2 and outside.

3 Inside will be decor. It will be benches or seats or
4 booths or what have you.

5 Q. Turning to another issue: When did you first hear about
6 Taco Cabana?

7 A. I heard — the first time I really heard about it was the
8 Spring of 1986. And a friend of mine, Sam Barshop (spg), who
9 is the chairman of La Quinta, called me.

10 He said, "Norman, I've got something. I want you to
11 come down and look at it."

12 I said, "What is it?"

13 He said, "It's Taco Cabana."

14 He said, "Boy, it's something. If you come down here,
15 I'd like to join you and we'll get a franchise and we'll do
16 it."

17 I said, "No. I've got all I can do. In fact, I'm
18 tied up right now building Chili Burgers."

19 But then I heard it from two or three other people.
20 And then mutual friends said, "I'd like you to meet Felix
21 Stehling down in San Antonio." So I then went down and
22 subsequently met him in August.

23 Q. At the time you met Mr. Stehling, did you also look at some
24 of the Taco Cabana cafes?

25 A. Yes, sir. We went and looked at most — maybe all, I don't

1 recall — but four or five in San Antonio.

2 Q. After you had the opportunity to look at them, what did you
3 think of them?

4 What perception did you have of what we've referred to
5 here as the Taco Cabana concept?

6 A. Well, I've seen an awful lot of restaurants, but I was
7 impressed. I was really quite surprised. All the things Sam
8 Barshop said — I have such high regard for him — he described
9 them quite well.

10 The thing that surprised me was the excitement level,
11 the pleasantness. The traffic, of course, was just incredible.
12 As a matter of fact, the volume they were doing was, oh, 50 to
13 60 percent more approximately in an average volume than
14 McDonald's with about the same square footage. I was really
15 quite impressed. I was impressed with the food and the
16 pricing. And the overall ambiance made me feel quite
17 comfortable.

18 Q. Is McDonald's sort of the Belle Starr of successful
19 restaurants?

20 A. I think it's more than Belle Starr. That's the Greg
21 Louganis of the restaurant industry.

22 Q. Well, what made you think trade dress was so remarkable
23 other than the fact that heavy traffic came through?

24 A. Well, you know, in this business you can't separate out any
25 one thing, as I mentioned before. It's a total of everything.

1 Now, people will start dissecting. I keep telling
2 our people, our supervisors, when they go to restaurants, don't
3 try to dissect everything. How do you feel? What's your
4 overall impression?

5 So related to that, for whatever the reasons were, it
6 was an experience that made me feel very good and made me able
7 to identify with them and understand. And I understood very
8 well then why people liked them so well. It was very casual.
9 It was in keeping with the demographics — certainly the
10 demographics — and the geography. And it all came together to
11 make for an extremely pleasurable and worthwhile experience.

[NORMAN BRINKER]

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13 Q. Let me turn your direction, if I could, to these models
14 over here, Mr. Brinker, if I might.
15 You've seen these models before, have you not?
16 A. I just saw them a few minutes ago.
17 Q. Plaintiff's Exhibit 3, which is the one here on my left and
18 your right, and the one on my right and your left, is a replica
19 of a Two Pesos. One is the Gessner store, which is the first
20 Two Pesos. And this is built according to the plans of the
21 Taco Cabana 5.
22 Now, I'd like for you to talk to the jury, if you
23 could, about what it is that you see similar or dissimilar in
24 these restaurants as to the trade dress and that sort of thing.
25 I'll sort of hold them up here, if I may.

1 Q. Well, the first thing — I mean to me it's incredible.
2 It's incredible with the background of the principals involved
3 in the Two Pesos why there has been no imagination.

4 They made them so similar. To look at them, the
5 footprint is almost identical. I mean, if you tried hard, you
6 could hardly make them dissimilar.

7 The seating is approximately the same. The entryway
8 is about the same. Even down to the number of people who are
9 in each area. There's a little bit of difference, but it has
10 nothing to do with trade dress.

11 Trade dress is what you feel, what you perceive, what
12 feeling you have.

13 You have the open counters. It's amazing. They even
14 come in at an angle on both of them. You have the openness
15 through here.

16 And then, of course, you have the menu. The menu is
17 fairly essential.

18 Now, whether or not this is green or white or pink or
19 blue has little to do with it because you have the different
20 colors as you see over here. Now, ideally — ideally — you
21 like to keep the same color over and over and over again so you
22 repeat in the customers' minds when you see a color, you know
23 what it is.

24 You can take even McDonald's. They will insist upon
25 the "m," but you've seen all kinds of differences in them as it

1 gets more difficult to get locations.

2 Then you have the openness. You even have the garage
3 doors that are the same. The awnings are about the same. The
4 pole signs are essentially the same with the main sign up here
5 and then a reader board. This may be rectangle and that being
6 square. But in the conceptualization of people that drive by,
7 they're identical.

8 Q. Let me ask you to direct your attention to this food
9 service area in the two, which is generally located in here.

10 What are the similarities or differences in there as
11 you see it between these two?

12 A. I just — essentially nothing. I mean, where this comes
13 out square, this come out at an angle. Essentially there's no
14 difference.

15 Q. While you're down there — if I can balance this up here,
16 I will.

17 Plaintiff's exhibits 447 and 448. And perhaps I'll
18 stand here out of the way and let you get on the other side.

19 These are the floor plans of the Taco Cabana 5, which
20 is the model over there on the far side of Taco Cabana.

21 This is the floor plan of the Two Pesos Gessner store.

22 Now, perhaps you can explain this in the context of
23 what you were talking about on the two models.

24 A. This is the — here's the entryway. And on one it comes
25 down —

1 Q. You're going to have to talk up a little bit.

2 A. This is the dining area. It's essentially the same.

3 There's no difference. You come over here for the service.

4 Then you have a smaller dining area almost identical except in

5 this one you come at an angle and this one is straight. This

6 meant that the inside was essentially the same. And then the

7 outside dining rooms are essentially the same again.

8 Here's the drivethru. It's just a layout. If you

9 took this and superimposed on that, essentially there would be

10 no difference.

11 Q. Now, taking the blue one or looking at the outside profiles

12 of these various restaurants, do you have an opinion as to the

13 similarities or differences of them?

14 You will note that these are essentially the same

15 direction of pictures on each of these various restaurants that

16 are shown on these photographs.

17 A. If you excluded the name, you simply couldn't tell because

18 you have different colors already. You've lost identification

19 to color because you — the only identifying — if a consumer

20 paid that much attention — he wouldn't know where he was. He

21 wouldn't know which one he was in. You have that confusion.

22 Q. You can resume your seat, if you would.

23 A. (Witness complies.)

24 Q. Now, the argument has been made that the name is enough to

25 make a difference. Do you have an opinion on that?

1 A. You know, it's an interesting phenomenon. I haven't ever

2 seen anything quite like this in my experience where the

3 ambiance and the concept, the patio concept, the dominance or

4 predominance of the opening doors or of the patio has

5 overshadowed the name.

6 Now, even excluding that, people will read the sign

7 certainly. But in this case that has overshadowed the name,

8 which is not to say I see Two Pesos or Taco Cabana. If you

9 paid that much attention, you would know certainly there must

10 be some difference. But what you really might be inclined to

11 think is that they're part of the same company.

12 I had — at one point at Steak & Ale we were

13 precluded from using "ale" in certain states, about nine. We

14 picked the name "Jolly Ox." I don't know. Here we're two

15 concepts; one Steak & Ale and one Jolly Ox. It was only a very

16 short time before everyone knew it was a Steak & Ale because

17 everything else came together. This is the way it is. We even

18 advertised as Steak & Ale. We never made ads for Jolly Ox.

19 People even knew we had run the Steak & Ale ads in Jolly Ox

20 territory because people knew what it was.

21 Q. You didn't specifically identify the two as related, but

22 people thought they were?

23 A. They knew they were after a while.

24 Q. Do you have an opinion as to whether this kind of

25 similarity as you testified to is likely to confuse the

1 consuming public as to the restaurants?

2 A. Oh, it will. There's no question.

3 Q. What's the harm, if you could explain to the jury, in this
4 to Taco Cabana, which was the first one with this concept?

5 A. Well, certainly there are a proliferation of restaurants.
6 You're trying to get your own identity, your own aura out.

7 The problem or the confusion is, number one, if you
8 don't have as good a product or you're not having a good
9 experience, that can cause you some problems.

10 But assuming they're both the same, then you simply
11 have the problem of you're precluded from expansion because
12 you're not going to have two of these on the same corner. If
13 one gets there ahead, because they're essentially the same, you
14 would be precluded from expanding, precluded from market
15 penetration.

16 And then that comes to the next step: you're
17 precluded from advertising or, as such, market penetration. So
18 it's a real unfortunate situation here.

19 Q. In the 1985-'86 period, how did you view the geographic
20 market that Taco Cabana had?

21 A. Geographic market, if I understand what you mean, is where
22 they would be nationally inclined to expand.

23 Q. In your view, did Taco Cabana have a market limited to the
24 city limits of San Antonio, or what was the depth of that
25 market as you viewed it?

1 A. If you look at a concept, you can say to yourself, "All
2 right. Within certain areas I know I have a high degree of
3 confidence. It will succeed."

4 As a matter of fact, when I came in with Chili's,
5 there were 20 restaurants and they were in about — in the
6 Southwest and two other cities. We were going around talking
7 to potential investors.

8 I said, "Now, we have not proven — we have not proven
9 — we can do well in Florida, we have not proven we can do well
10 in Southern California, and we have not proven we can do well
11 in the West." But we knew in the Southwest what we could do
12 because that was the psyche. That was the aura we had.

13 So back to Taco Cabana. You would know with a high
14 degree of profitability, meaning 95 percent, that anywhere in
15 Texas, in Southern Texas and I would say West Texas, including
16 El Paso, because the demographics, whether demographics
17 including the Hispanic population, Hispanic attitude, and then
18 on south.

19 So you could see — very quickly you could see 45, 50
20 restaurants in that geography with a high degree of confidence.

21 Now, if you move into Alabama, Oklahoma, Louisiana,
22 you would have some degree of confidence, and you would think
23 in Southern California. But if you just start talking about
24 North, Dallas on North, it has not proven itself yet.

25 Q. Are you aware, Mr. Brinker, of any actual confusion that

1 you've observed or heard about between Two Pesos and Taco
2 Cabana?

3 A. Well, I'm not a principal in this case. I haven't made it
4 my business to go around doing surveys. But just offhand, I've
5 had quite a number of comments, one as recently as Sunday.

6 Mr. Durkee: I'm going to object to that as hearsay.

7 The Court: I'll sustain the objection.

8 Mr. Gambrell: Let me rephrase the question.

9 The Court: All right.

10 By Mr. Gambrell:

11 Q. Without indicating specifically who, have you had instances
12 of confusion brought to your attention?

13 Mr. Durkee: I have the same objection.

14 The Court: Overrule that objection. You may answer
15 that question.

16 A. (Continuing) Yes, sir, I have. As I started to say, on
17 Sunday —

18 By Mr. Gambrell:

19 Q. Well, no. I think —

20 A. Yes, I have.

21 Q. He doesn't want you to go into detail about it.

22 Would you rate the level of confusion that you've
23 heard expressed to you as typical of any restaurants that
24 operate or higher or lower or what?

25 How would you characterize it?

[88]

1 A. I've never seen anything quite like it, because they're
2 identical in the consumer's mind.

3 Q. Do you have an opinion on whether there's a likelihood of
4 confusion between Taco Cabana and Two Pesos?

5 A. Not likely. There's a certainty.

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[89]

[NORMAN BRINKER]

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11 Q. Mr. Brinker, I think you testified you developed the Steak
12 & Ale concept?

13 A. Yes, sir.

14 Q. And how long did it take you to get your first restaurant
15 in operation?

16 A. From when?

17 Q. From when you started developing that concept.

18 A. It took about two years.

19 Q. Where did you get the concept?

20 A. When I left Jack-in-the-Box, my first move was to go into
21 the coffee shop business. I started a coffee shop in Dallas
22 called "Brink's," and operated it for about a year and realized
23 that that was a tough thing. It just wasn't for me. So I
24 started looking around and I said, "You know, what are the
25 problems?"

[100]

1 The problems are help early in the morning, lunches,
2 part-timers, and such. What I want to do is I want to get into
3 something that's a higher-ticket average and that's open at
4 night. I would also use some students there from the seminary
5 college there near Gaston and Carroll.

6 So I started looking around and looking around. At
7 the same time I had a partner in the coffee shop. He lived in
8 Phoenix. I went to Phoenix. I looked at a lot of salad bars.

9 I knew what I wanted: nighttime, higher-ticket
10 average, something where I could use students, and a salad bar.

11 The second problem is getting the food to the people
12 quickly. I looked and looked and looked and I couldn't find
13 anything. I went to Phoenix and a partner and I saw a company
14 called "Cork & Cleaver" run by two people, Peter Green and Tom
15 Fleck (spg). So that sort of formulated the basic idea.

16 Q. So is the "Steak & Ale" restaurant similar to the "Cork &
17 Cleaver" restaurant?

18 A. Yes, sir.

19 Q. They both have salad bars?

20 A. There aren't any "Cork & Cleavers" around any more.

21 Q. At that time.

22 A. There were salad bars.

23 Q. Do they both have the same kind of menus?

24 A. You mean at that time?

25 Q. Yes.

[101]

- 1 A. Yes, sir.
2 Q. And so you started your restaurant based on the concept of
3 somebody else?
4 A. Well, did I start "Steak & Ale" on the concept of someone
5 else? I went to Peter Green and Tom Fleck.
6 Q. Could you just answer my question?
7 A. Did I start the concept? Yes, sir.
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[102]

[NORMAN BRINKER]

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18 Q. Now, are there any statistics in the last category, which
19 was the combination of the various things, pallet, feeling,
20 light level, sound level, et cetera?
21 A. I don't — the only thing I've seen is that the people
22 consider this to be important. But it's so subjective it's
23 hard to quantify that like it is the other.
24 Q. Is it fair to say that it's relatively unimportant?
25 A. No. It's quite important. In fact, that's the magic

[130]

1 element. When you add all those up together, that's where it's
2 intangible.

3 That's why you look at restaurants or you go down the
4 road and say, here's one that closed. Remember the last time,
5 it looked good. This one is closed. This one is closed. This
6 one is busy.

7 It's hard to understand until you see it.

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[131]

[NORMAN BRINKER]

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8 Q. What features of a Taco Cabana restaurant do you consider
9 to be not functional?

10 A. Not functional at all?

11 Q. Right.

12 A. The plants, the decor items. Umbrellas are functional,
13 semi-functional.

14 If you go beyond that and say strictly nonfunctional
15 at all, there wouldn't be very much in a restaurant that's that
16 Spartan, that would be nonfunctional.

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[131]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4

5
6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } September 28, 1988
9 9:00 a.m.

10 VOLUME III
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY
16

17
18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
21 HOUSTON, TEXAS 77002
22

23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[FELIX STEHLING]

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23 Q. Now, this particular joint venture or partner you have down
24 in San Diego, how many stores is he going to open?
25 A. He's going to do four stores. We've opened our first one

[74]

1 and we've found a location for our second one.

2 Q. But it hasn't started construction yet?

3 A. No.

4 Q. Who is the gentleman involved?

5 A. His name is Noel Meisner. He had 11 McDonald's in Montana
6 and sold them. He kind of came south or went to the west coast
7 to retire and saw the concept and had to get back in the
8 business.

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[75]

[FELIX STEHLING]

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9 Q. What restaurant is that?

10 A. Alfonso's in San Antonio.

11 Q. In your opinion, is this restaurant similar to Taco
12 Cabana?

13 A. No.

14 Q. What do you see are the principal differences?

15 A. Well, it doesn't have garage doors. It doesn't have
16 awnings. It has a tile roof. It has a sawtooth or jagged roof
17 line. And, of course, I know that it's — they operate out of
18 a commissary. They have all their food —

19 Q. What is a commissary?

20 A. They have all their food delivered in trucks early in the
21 morning and they reward it during the day.

22 Q. They don't prepare it on the premises?

23 A. There's very little prepared on the premises.

24 Q. So Mr. McDermott — let me go back — referred to the fact
25 that they got ideas from Alfonso's.

[96]

1 I take it your opinion is they are very different
2 animals?

3 A. Very.

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[97]

[FELIX STEHLING]

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14 Q. Based on your background and experience, Mr. Stehling, is
15 that kind of growth pattern shown here for Two Pesos a normal
16 growth pattern from the beginning of a concept to its full
17 development?

18 A. It's just all but impossible.

19 Q. Do you know of any restaurant concepts that started on
20 their own, beginning with their own concept, that developed
21 that quickly?

22 A. No, sir.

23 Q. Do you have an opinion about how much head start they got
24 on you as a result of taking your concept?

25 A. Around four years.

[125]

[FELIX STEHLING]

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21 A. I'd have been a lot better off if Mr. McDermott would have
22 come up with his own concept.

23 Q. And not competed with you?

24 A. If he wouldn't have stolen my concept.

25 Q. Well, isn't it a fact, sir, that you wanted him not to

[136]

1 compete with you?
2 A. If he wouldn't have stolen my concept, if he had had his
3 own concept — why couldn't he do his own concept? Because he
4 didn't know if it would work or not. So he took mine because
5 he knew that it worked. I proved that it worked and he put his
6 name on my concept.
7 Q. And your concept is the idea of a Mexican patio cafe?
8 A. It's an original concept. There's nothing like it
9 anywhere.
10 Q. What is your concept?
11 A. It's a cross between Taco Bell, which is a very plastic
12 concept, and a traditional sit-down restaurant.

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[137]

[FELIX STEHLING]

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25 Q. The plans you're complaining about here are the

[152]

1 Fredricksburg store contains no notice of any kind about
2 confidentiality. Isn't that correct?
3 A. Most people in the city have ethics of some nature.
4 Q. Would you answer my question, please?
5 A. No.
6 Q. And those plans had no copyright notice?
7 A. No, sir.
8 Q. So isn't it fair to say there was no notice of any kind on
9 these drawings about confidential information or about
10 copyright?
11 A. You can assume that, yes.
12 Q. Isn't it a fact?
13 A. Yes.
14 Q. Now, let me show you plaintiff's Exhibit 1.
15 Is that a part of the Fredricksburg plans?
16 A. I think so.
17 Q. Could you identify for me, sir, any trade secrets contained
18 on plaintiff's Exhibit 1?
19 A. How about the configuration, the way it was all put
20 together, is a trade secret.
21 Q. Is that —
22 A. I was going to say it's the only one like it in the
23 country. But I was wrong. There are two.
24 Q. Could you point out to me something on that drawing that's
25 secret?

[153]

1 Mr. Gambrell: I beg your pardon?
2 Mr. Durkee: That's secret.
3 A. (continuing) There's a lot of functional things that are
4 put together in such a way that it's a trade secret as far as
5 I'm concerned.

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[154]

[FELIX STEHLING]

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17 Do you agree with Mr. Brinker that the only
18 nonfunctional items are decor and plants?
19 A. Pretty well, I'd say.
20 Q. Is the answer yes?
21 A. Yes.

[160]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } September 29, 1988
9 9:00 a.m.

10 VOLUME IV
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY
16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
21 HOUSTON, TEXAS 77002
22
23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[FELIX STEHLING]

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12 A. It's just that the operation and my menu and the way I had
13 everything was a trade secret.
14 Q. Sir, we're going around in circles. It's going to take an
15 awful long time.
16 The Court: No, it's not, because we're going to move
17 along.
18 Mr. Durkee: Your honor, I need to get this
19 determined.
20 The Court: I think he has answered your question
21 repeatedly, what he's claiming.
22 By Mr. Durkee:
23 Q. Can you identify one trade secret for me?
24 A. The whole concept.
25 Q. And you cannot identify any other?

1 A. It's all inclusive.

2 Q. And you cannot identify any trade secret that Two Pesos is
3 using?

4 Mr. Gambrell: Your Honor, he has asked this about
5 twenty times.

6 The Court: His position is the whole concept. He has
7 repeated that.

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[34]

[FELIX STEHLING]

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2 Q. We were looking at 470-D, D and E.

3 Do you recognize that restaurant?

4 A. I can't be real sure.

5 Q. Is that a Taco Cabana?

6 A. No, sir.

7 Q. Is that a "Sombrero Rosa"?

8 A. It could be.

9 Q. Does the decor there signify Taco Cabana?

10 A. There's a similarity.

11 Q. Is it your position that decor signifies a Taco Cabana?

12 A. Do you have a picture of the "Sombrero Rosa" in your file?

13 Q. An outside picture.

14 A. Yes. That's the "Sombrero Rosa."

15 Q. Is that restaurant in San Antonio?

16 A. And I consider that trade dress — there's just no chance
17 of any mistaken identity with that thing they have on top of
18 the building.

19 Q. Isn't that restaurant in San Antonio?

20 A. Yes.

21 Q. How many of them are there?

22 A. Two.

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[92]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION

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5
6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } October 3, 1988
10 } 9:30 a.m.

11 VOLUME V

12 TRANSCRIPT OF TRIAL PROCEEDINGS

13 BEFORE

14 THE HONORABLE JOHN V. SINGLETON, JR.

15 AND A JURY

16
17
18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

21
22
23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[FELIX STEHLING]

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2 A. (Witness complies.)

3 Q. Let me direct your attention to "PappaTaco's," which is
4 plaintiff's Exhibit 402, I believe;

5 Yes. I have in front of you plaintiff's Exhibit 402.

6 Are you familiar with that "PappaTaco's"?

7 A. Yes, sir. I've been in it.

8 Q. Looking at that — What is that, incidentally? Is that an
9 original building or a redo?

10 A. It's an old "Steak & Ale."

11 Q. Let's look at the top pictures of the exterior
12 architecture.

13 Does that appear similar to Taco Cabana?

14 A. Nobody could confuse that with Taco Cabana.

15 Q. Now, looking at the interior, the shot of the inside of
16 "PappaTaco's," is that more similar to Taco Cabana than Two
17 Pesos?

18 A. No, sir, it's not. It's different. It even has carpet on
19 the floor.

20 Q. It has interior posts, does it not?

21 A. Yes.

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } October 4, 1988
9 9:30 a.m.

10 VOLUME VI
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY
16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
21 HOUSTON, TEXAS 77002
22

23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[RALPH E. KENISKY]

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23 Q. You mentioned during your direct testimony the two or three
24 instances a month of confusion which took place over about six
25 or seven months, as I recall?

[117]

- 1 A. That's correct.
2 Q. Were these voluntary statements made to you?
3 A. Oh, yes. They were all voluntary.
4 Q. So you didn't sit there at the counter and ask people if
5 they were confused as they walked through?
6 A. No, no. I didn't have time to do that.
7 Q. So you don't know now many people had that same thought in
8 mind but just didn't make the comment to you, do you?
9 A. No, outside of those that approached me. It could have
10 been more.
11 Q. You don't know how many may have been confused?
12 A. That's right.
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[LYNN MOODY]

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5 A. Well, the number one thing that I'm asked most often when
6 people find out that I'm with Taco Cabana is they want to know
7 if Taco Cabana and Two Pesos is owned by the same company or
8 are we subsidiaries of the same company.
9 Q. Are these questions that you elicit the question from by
10 asking them, or are these voluntary or unsolicited comments?
11 A. Unsolicited.
12 Q. In addition to that, what other kinds of information do you
13 have on instances of actual confusion?
14 A. Comment cards that we get back from customers. Or we get
15 phone calls from customers asking how come one store does —
16 one store is selling margaritas for 99 cents while the other
17 one is selling for \$2.00 or why one store is pink and one store
18 is blue.
19 Q. Do you know during the period of time, did Virginia Crowe
20 — who I take it is your aunt —
21 A. Yes, sir.
22 Q. — Did she keep comment cards at the Taco Cabana store at
23 Chimney Rock and Richmond?
24 A. Yes, sir.
25 Q. Did you review those comment cards?

1 A. Yes, sir.

2 Q. Do you review comment cards that come in from various
3 stores?

4 A. Yes, sir.

5 Q. Have you reviewed those cards that come in from
6 franchisees?

7 A. Yes, sir.

8 Q. For example, in El Paso. Have you seen some that come from
9 there?

10 A. Yes, sir.

11 Q. Do you have a habit of talking with the various franchise
12 owners and company store managers wherever the stores are?

13 A. Oh, yes, sir.

14 Q. Based on that, what kind of actual confusion have you seen
15 over and above the kind that you just indicated?

16 A. A lot.

17 Q. And is this — in connection with the comment cards, are
18 those comment cards to solicit specific instances of confusion,
19 or how do you ask a customer to give a comment card?

20 Is the comment card directing them to say, "Is there
21 confusion," or do you just ask for their comments on the
22 card?

23 A. We just have a basic comment card we put on the tray and
24 they fill it out and put it in the drop box.

25 They come out saying — most of them come out saying,

1 "Is Two Pesos and T.C., Taco Cabana, owned by the same
2 company," or, "How come this building is pink," or — let's
3 see what other comment's they make towards actual confusion.

4 A. Do they sometimes give you the appearance that they think
5 you, have a store at a particular location which is not your
6 store?

7 A. Oh, yes, sir. I got a letter from some people I don't even
8 know thanking me for — or my wife and I did — thanking us for
9 letting them come in our kitchen and work with our food and our
10 cooks and our recipes at our North Richland Hills location.

11 Q. Which Taco Cabana is North Richland Hills?

12 A. We don't have one there. That's Two Pesos.

13 Q. And they wrote you thanking you for Two Pesos' hospitality?

14 A. Yes, sir.

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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4

5
6 Taco Cabana International,
Inc., and Taco Cabana, Inc.

7 vs.

8 Two Pesos, Inc.
9

} Civil Action
No. H-87-0026

} Houston, Texas
October 5, 1988
9:30 a.m.
}

10 VOLUME VII
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14

15 THE HONORABLE JOHN V. SINGLETON, JR.
16 AND A JURY
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
22

23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY
25

[VIRGINIA STEHLING CROWE]

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4 Q. Ms. Crowe, would you please state your full name?

5 A. Virginia Stehling Crowe.

6 Q. Are you the sister of Mike and Felix Stehling?

7 A. Yes.

8 Q. What is your current occupation?

9 A. I'm the manager of the Houston TaCasita store.

10 Q. Could you speak up a little bit?

11 A. I'm the manager of the Houston TaCasita store.

12 Q. And that TaCasita is located at the intersection of
13 Richmond and Chimney Rock here in Houston?

14 A. Yes.

15 Q. How long have you held that position?

16 A. Almost three years.

17 Q. When did you start to work for — I assume since you've
18 held that position for three years, you worked before for Taco
19 Cabana?

20 A. Yes, I worked for Taco Cabana. Okay. Taco Cabana, I
21 started in November of '85.

22 Q. And that was before the split?

23 A. That's right.

24 Q. At that time did you work for TaCasita, or Taco Cabana as
25 it was then known, at Richmond and Chimney Rock?

[93]

1 A. No. The Richmond and Chimney Rock store — I worked in
2 San Antonio. I lived here in Richmond-Rosenburg, but I went to
3 San Antonio to train, to help open the Houston store, which was
4 in February.

5 Q. Okay. So you went to work for a couple of months in San
6 Antonio and then came to Houston and went to work at the new
7 store on Richmond?

8 A. Well, I actually worked in San Antonio for two months and
9 then moved to Austin because we were opening a store there.
10 And then I came to Houston.

11 Q. Have you been the manager of the Houston store since it
12 opened?

13 A. Yes.

14 Q. Is quality of principal concern to Mike Stehling?

15 A. Quality in what respect?

16 Q. Food and services.

17 A. Absolutely.

18 Q. Has that been his position even when you started working
19 for Taco Cabana three years ago?

20 A. Sure.

21 Q. And even after the corporate split in December 1986, is it
22 still a principal concern to TaCasita that quality be
23 maintained?

24 A. I would say that the quality of food has always been the
25 most important thing.

1 Q. At the time you worked for Taco Cabana, was quality of food
2 and service of principal concern to Felix Stehling as well?

3 A. Sure.

4 Q. Is TaCasita concerned about Taco Cabana maintaining a
5 quality product and service, quality product and service in its
6 food and services?

7 A. Well, I would say we have to be. You know, we have the
8 identical trade dress. We look the same. Many people confuse
9 us. Many people come into our store thinking we're Taco
10 Cabana. And I think it happens vice-versa.

11 We don't want someone going there and saying, "the
12 food was lousy there. I'm not going to go to any more," and
13 assume that we're the same people.

14 So it's important that they keep theirs up as much as
15 we keep ours up.

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[VIRGINIA CROWE]

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Q. It was clear to you that this confusion was between Taco Cabana and Two Pesos?

A. Yes.

Q. Let me refer you now to page 6 of this same package, Exhibit 366-b.

This particular person — apparently the lady drove through the drive-through window and asked if you were affiliated with Two Pesos. She said that we had the same kind of food and when they drive past or look inside, they looked the same. She said it was identical.

Again, is this the kind of comments that you received?

A. Sure. People would walk in the front door. If they hadn't noticed that we were similar or the same before they came in, they would say, you know, "Oh, my gosh. This is exactly like Two Pesos," or, "Are we in the same place," or, "This store is owned by the same company."

There was a lot of confusion on that.

Q. These were all unsolicited?

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A. Absolutely. Quite honestly, we didn't like to hear the name of Two Pesos in our place.

Q. And this happened two or three times a day for several months?

I would say it happened more than that. I can say that I heard it two or three times a day. We're a 24-hour store and I'm just there maybe a third of the day.

Q. So you heard it approximately two or three times a day?

A. Yes.

Q. For how many months approximately?

A. Oh, at this point it would be hard to remember. I'd say maybe that went on for two or three, maybe even four months.

Q. So you heard about it a 200 or 300 times, something like that?

A. Okay. If that's how it comes out.

Q. Is that approximately how many times you estimate?

A. That would be fair.

Q. Now, these particular reports that are 366-B are documented reports. Is that correct?

A. That's right.

Q. I assume you heard more undocumented instances. You didn't document every single instance, did you?

A. No.

Q. Now, this particular document, 366-B, has dates — would you identify for the jury the range of dates in this document?

[101]

- 1 A. Which page? I'm sorry.
2 Q. You can start with one.
3 A. Oh, okay. That's dated March 23rd. Do you want me to go
4 to the last one?
5 Q. Is that a five or a three?
6 A. I think that's a three.
7 Q. And the next one?
8 A. The next one is May something.
9 Maybe that is a five on the first one. I'm not real
10 sure.
11 Okay. The next one is May. The next one is May. The
12 next one is probably in May. I can't tell from this. The next
13 one is May. May. May. May.
14 Now here's a February. And the next one is June.
15 June. June.
16 Q. All in 1986?
17 A. Some of them don't have the year, I don't think.
18 Wait. Let me see.
19 Some of them don't have the year, but they probably
20 are all in 1986.
21 Q. So these are documented instances, most of them being in
22 May of 1986?
23 A. Yes.
24 Q. You don't have any other documentation outside of this type
25 here, do you?

- 1 A. No.
2 Q. But this confusion level continued past this May 1986 time
3 period?
4 A. I'd say it still exists right now.
5 Q. How often does it happen now?
6 A. I would say we're down to two or three times a week,
7 something like that.
8 We're probably now in the comparison stage and have
9 been for a long time, people comparing us to Two Pesos and are
10 not as confused.
11 But we still have people that come in and say, "You're
12 owned by the same company. You have a different name, but you
13 must be the same company."
14 They still say that.
15 Q. And that still happens two or three times a week?
16 A. Maybe a couple of times a week.
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[SCOTT ZIEGLER]

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13 Q. At the time you had that first meeting, what is that Mr.

14 Blacketer told you and Mr. McDaniell?

15 A. That he would like to start a restaurant concept with a

16 drive-through and Mexican food service.

17 Q. Did he have one in mind during your discussion?

18 Did you get the impression he had a particular

19 restaurant concept in mind?

20 A. He had come to our office with some photographs and a plan

21 of a restaurant that he said he found very interesting.

22 Q. And which restaurant was that, Mr. Ziegler?

23 A. Taco Cabana.

24 Q. And he had a number of pictures of it?

25 A. As I recall, there was one picture and one floor plan.

[136]

1 Q. And was that a set of drawings that he had with him? Do
2 you recall?

3 A. I do not recall anything more than a floor plan and a
4 photograph showing an oblique angle of the entrance.
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[137]

[SCOTT ZIEGLER]

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Q. At this time you had a meeting with who, Mr. Blacketer and
who else?
A. For this presentation?
Q. Yes, that presentation.
A. This presentation was Jim McDaniell, myself, Jim Blacketer
and Mr. McDermott.
Q. And it was around April 24th or so?
A. Yes.
Q. Now, at that time you had — Mr. Blacketer had already

[144]

1 been in a discussion with you and Mr. McDaniell and had shown
2 you a set of Taco Cabana plans and photographs. Is that
3 correct?
4 A. Yes, he had.
5 Q. As a matter of fact, I believe you indicated that the Taco
6 Cabana drawings were in your office for the first meeting you
7 had with Mr. Blacketer. Is that correct?
8 A. It was either the first or the second, but they were in my
9 office.
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[145]

[SCOTT ZIEGLER]

1 In the first paragraph after the statement of the
2 hiring of the firm for design services, it says, "As requested,
3 this first phase of services is to be of limited scope based
4 primarily on an existing prototype originated in San Antonio."

5 Do you see that?

6 A. I did read that, yes.

7 Q. And what prototype in San Antonio did that make reference
8 to?

9 A. I assume it was the plans that he brought to our office.
10 We had not been to San Antonio to see that, so I don't know.
11 But I'm assuming that's what he meant.

12 Q. You say you had not been?

13 A. I had not been to San Antonio.

14 Q. Do you know whether Mr. McDaniell had been to San Antonio
15 and looked at a number of Taco Cabana restaurants?

16 A. Within a certain time frame, I could probably describe
17 that. I know that somewhere after the design of this first
18 phase here, I think he went to San Antonio with Mr. Blacketer
19 on a Saturday morning.

20 Q. You don't remember whether it was before April 24th or
21 after April 24th?

22 A. I believe it was after April 24th.

23 Q. But is there any doubt in your mind what was referenced
24 here in this letter was to the Taco Cabana Restaurants in San
25 Antonio?

[148]

1 A. The reason I'm hesitating is that there were a couple of
2 restaurants that were mentioned. Having never been to San
3 Antonio — and I know that Jim McDaniell had not been there at
4 that time — what we were relying on was Mr. Blacketer's
5 knowledge of a concept in San Antonio. In retrospect, it
6 probably was that, but I can't be certain.

7 Q. Did Mr. Blacketer when he first met with you and Mr.
8 McDaniell show you photographs of plans or plans of any
9 restaurants other than Taco Cabana?

10 A. No. It was photographs of Taco Cabana and a plan of Taco
11 Cabana.

12 Q. That was the only one that was shown to you two during
13 those meetings?

14 A. Right.

15 Q. So it's logical to assume, is it not, that that reference
16 in PX-138 is to Taco Cabana?

17 A. Yeah.

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[149]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4

5
6 Taco Cabana International, } Civil Action
Inc., and Taco Cabana, Inc. } No. H-87-0026
7 vs. }
8 Two Pesos, Inc. } Houston, Texas
9 } October 6, 1988
9 } 9:30 a.m.

10 VOLUME VIII

11
12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY
16

17
18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

21
22
23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[GABRIEL M. GELB]

1 Q. Now, let's come back then and look at question 5, "What
2 makes you think that these restaurants are owned or operated by
3 the same company?"

4 Now, could you explain 442-D to the jury, please?

5 A. Right. Well, the folks gave many different reasons. I
6 could read some of them to you.

7 But we have a data processing department whose job is
8 to take open-ended questions and create categories for them,
9 those that are most similar to that, so that you wouldn't have
10 all of these answers just go down the chart. They're very
11 skilled in what we call coding these.

12 So those are summaries of the kinds of questions which
13 were grouped together.

14 Q. These are sort of compartments in which similar kinds of
15 responses are classified and coded, would you say?

16 A. Right.

17 Q. Now, would you please explain to the jury what these
18 codings or categories mean or how they shape up?

19 A. Okay. Well, the next thing to mention is that we have
20 multiple answers there. In other words, it will add up to more
21 than 100 percent.

22 Some people say, "Well, the building looks the same.

23 That's why I think that they're owned or operated by the same
24 company," or they might say, "Well, the menu is the same also."

25 So they could be represented in more than one of those

[86]

1 bars.

2 Q. Or categories?

3 A. Or categories. And it starts from the top. 32 percent
4 gave as reasons why they thought that these restaurants are
5 owned or operated by the same company is that they have the
6 same food, the same things in the store. That's just kind of a
7 generalization. That was 32 percent.

8 29 percent, which is very close, said there was a
9 similarity in the buildings and they have the same look. By
10 that, they meant — some meant they have the same look inside
11 and some meant that they have the same look outside.

12 22 percent, that third bar, said that they have the
13 same style operation, the way they operate. The drive-in is
14 the same or the way that you order is the same.

15 Those are the three major reasons given why they
16 thought that the restaurants were owned or operated by the same
17 company.

18 And then it drops down to the fourth bar, which is 9
19 percent, that thought that the names were similar.

20 8 percent felt that the decoration or the colors were
21 the same.

22 5 percent said the menu was similar.

23 3 percent said the atmosphere is alike.

24 And then 2 percent said, "I just heard that they're
25 the same company."

1 2 percent said, "I read it somewhere."

2 1 percent said, "TaCasita became Taco Cabana."

3 1 percent said, "They came out about the same time.
4 That's why I think they're the same."

5 5 percent, the last bar, I just gave assorted reasons.

6 Q. Just miscellaneous reasons?

7 A. That's right.

8 Q. From this question 5 and the questions 2, 3 and 4 before
9 it, what did you conclude with respect to the patrons that were
10 in Taco Cabana that you sampled?

11 A. Well, from my reading of Trade Dress — and I'm not an
12 expert in it — but I know what "concept" means in the context
13 of a restaurant.

14 If you'll look at that, you'll see that going all the
15 way down to 3 percent where the last bar chart is, the
16 atmosphere is alike.

17 Q. Down below the 3 percent one here?

18 A. Yeah. That's 3 percent. All of those answers above the 3
19 percent seem to be Trade Dress comparisons.

20 Q. Other than the name similarity?

21 A. Right. Well, that could be a Trade Dress similarity, too,
22 that's perceived by the public.

23 Q. They perceive the name to be the same?

24 A. Yes. And the same food, similarity in building, same style
25 operation, name similarity, decoration is the same, menu

1 similarity and atmosphere is alike, all seem to be Trade Dress
2 issues.

3 Q. From that, what do you conclude about the likelihood of
4 confusion in connection with the fact of Taco Cabana and Two
5 Pesos restaurants?

6 A. Well, I would say of the total sample, about 31 percent
7 appear to be confused by the similarity of the operation of the
8 two — or if you want to make it three — restaurants.

9 Q. How, how did you get this — I take it you're talking
10 about 31 percent of this 39 percent of the question 3?

11 A. That's right.

12 Q. How did you get that 31 percent? Could you explain to the
13 jury, please?

14 A. 39 percent of the people thought that some of these
15 restaurants were owned or operated by the same company.

16 What we did was when we asked them who that was, 19
17 percent named Taco Cabana and TaCasita. That does not indicate
18 confusion because there was a relationship between the two.

19 So if you add the 61 percent who named Taco Cabana and
20 Two Pesos and the 18 percent who named the three, multiply that
21 by 39 percent, you end up with 31 percent of the total sample
22 who seemed to be confused about the operation of the two, or
23 the three, restaurants.

24 Q. So what you're saying is taking the 61 and 18 percent from
25 442-C, and multiplying it times 39 percent of 442-B, you get

[89]

1 the 31 percent of the total sample population?

2 A. That's correct.

3 Q. What do you conclude as a result of seeing this 31 percent
4 that appear to be confused or are likely to be confused by the
5 similarities?

6 A. Well, I would say that 31 percent of the patrons of Taco
7 Cabana are confused in that there is a likelihood of confusion
8 along the same lines of the total sample of those who have
9 eaten at Taco Cabana.

10 Q. Does this result that you've explained to the jury apply to
11 all Taco Cabana customers?

12 A. No, not all of them. I would say it applies — the
13 specific numbers apply to Houston because we interviewed at all
14 of the three Houston stores.

15 Whether or not they would apply in El Paso would depend
16 on whether or not — how many stores of each chain
17 there were.

18 But certainly this does indicate that some element of
19 confusion would probably be on the scene in those markets.

20 Q. But would you — I take it what you're saying is with
21 respect to Taco Cabana in Houston, where both Two Pesos and
22 Taco Cabana are, that you believe this is extrapable into the
23 general population as the likelihood of confusion among people
24 who have been to both restaurants?

25 A. Yes.

[90]

1 Q. What about the question of what this would mean or show if
2 you were talking about running a survey like this in a Two
3 Pesos Restaurant?

4 Would you expect to have something more or less the
5 same or would it be different or what?

6 A. Well, our figures show that 61 percent of the total
7 population who are in a Taco Cabana store have been at Two
8 Pesos or Two Pesos and TaCasita. So there is a tremendous
9 overlap.

10 I would say that the statistics that we have for Two
11 Pesos' patrons at Taco Cabana would probably apply to those Two
12 Pesos' patrons who had also been at a Taco Cabana.

13 So I don't think there would be any difference between
14 those who had been at both stores whether they were interviewed
15 at a Taco Cabana or a Two Pesos.

16 Q. You're not suggesting a direct parallel, but just an
17 appropriate approximation would probably expect the same
18 general level of confusion?

19 A. That's right.
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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
October 7, 1988
9:30 a.m.

10 VOLUME IX
11
12

13 TRANSCRIPT OF TRIAL PROCEEDINGS

14 BEFORE

15 THE HONORABLE JOHN V. SINGLETON, JR.

16 AND A JURY
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
22
23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[JAMES MCDANIELL]

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3 Q. Now, did Mr. Blacketer have with him any photographs or
4 drawings of Taco Cabana Restaurants at that time?
5 A. Mr. Blacketer had some — I can't remember if they were
6 8 by 10's or smaller photographs of Taco Cabana.
7 Q. Were there a dozen, half a dozen?
8 A. There was two or three.
9 To the best of my recollection, I do not remember any
10 Taco Cabana drawings at all at that time.
11 Q. Did he have photographs of any other restaurants at the
12 time you first met him in Mr. Ziegler's office?
13 A. Not to my recollection.
14 Q. So the only photographs he showed you were those of Taco
15 Cabana?
16 A. Yes, sir.
17 Q. Now, you said he didn't show you a set of plans at that
18 meeting that you recall?
19 A. I don't remember if he did. I'm pretty much sure he didn't
20 have anything like that at that time.
21 Q. However, you've seen a set of Taco Cabana plans when you
22 were at Ziegler-Cooper, have you not?
23 A. Yes, sir.
24 Q. And when approximately did you see them if you didn't see
25 them at the first meeting?

[185]

- 1 Or let's get the sequence right.
2 You had the first meeting around early April, around
3 April 8th or April 10th?
4 Would that time frame be reasonable?
5 A. Early April is the best I can do.
6 Q. But you had another meeting with Mr. Blacketer subsequent
7 to that first meeting, did you not?
8 A. Could you repeat that please?
9 Q. Yes. Subsequent to the initial meeting where you were
10 introduced to Mr. Blacketer, you had another meeting following
11 that with him, did you not?
12 A. I had another meeting following that meeting with Mr.
13 Blacketer.
14 Q. That's what I meant.
15 A. Yes.
16 Q. All right. Now, approximately when after the initial
17 meeting did that second meeting take place?
18 A. I'm really not sure, but I would imagine it was probably
19 within a period of seven to ten days.
20 Q. So are you aware of the fact there was an engagement letter
21 signed by Ziegler-Cooper?
22 In fact, I believe you signed it on behalf of
23 Ziegler-Cooper on April 17th, 1985?
24 A. I don't remember the date. I remember the letter.
25 Q. Let me see if I can — well, for the moment — I'll get

[186]

1 to it in a minute.

2 I'll represent to you it was April 17th.

3 Now, working back from that assignment letter, you do
4 recall an assignment or an agreement letter in which you agreed
5 to do a limited design phase for "Nacho's" and Jim Blacketer,
6 do you not?

7 A. That's correct.

8 Q. Now, looking at that letter of the April 17th time frame
9 and going back from it, how far before that or how long before
10 that letter was signed by you and sent to Jim Blacketer did
11 you have your first meeting with him in Scott Ziegler's office?

12 A. I think that it would probably have been a couple of
13 days.

14 At Ziegler-Cooper we were fairly good about getting
15 our documentation done and getting the contract signed so that
16 we would have an agreement in order to base our work on.

17 Q. So you had at least two meetings, though, before you signed
18 the agreement?

19 A. No, I'm not saying that. I'm saying that that agreement —
20 I'm not sure if it was mailed or if that agreement was
21 presented at the next meeting that we had with Mr. Blacketer.

22 But it would have been one of those two situations.

23 Q. At that first meeting, Mr. McDaniell, that lasted about an
24 hour and a half as you indicated, what did Mr. Blacketer tell
25 you and Mr. Ziegler?

1 Were both of you in the meeting for the entire time?

2 A. Mr. Ziegler, myself and Mr. Blacketer, yes, sir.

3 Q. Now, what did Mr. Blacketer tell you at that time in that
4 initial meeting?

5 A. Well, Mr. Blacketer was very excited. He had an idea of
6 developing a concept like a Taco Cabana and he was talking
7 about how successful that concept was and he was showing us
8 different aspects of that particular concept pointing to them
9 in the photographs and things that he had.

10 I remember that he talked about they were doing
11 a tremendous volume and that they were a very successful
12 concept.

13 Q. Now, before you signed that agreement, there is no doubt in
14 your mind that Mr. Blacketer thought it was a very creative
15 concept?

16 A. Well, I don't know if "creative" is really the correct
17 terminology.

18 I think probably "successful" would be a more
19 applicable term.

20 Q. He didn't tell you that it was one of the neatest concepts
21 he had seen in the restaurant industry?

22 A. You have to know Mr. Blacketer. Mr. Blacketer is a very
23 energetic, excitable person.

24 He's the kind of person that walks into a room and
25 everybody starts smiling.

1 So, yes, he was very excited.
2 Q. You didn't know that characteristic of Mr. Blacketer when
3 you met him for the first time, did you?
4 A. No. But I had met similar people like that in my lifetime.
5 Those types of people are very similar.
6 Q. They're very hyper on what they like and very down on what
7 they don't like?
8 A. Yes, sir.
9 Q. And there's no question in your mind he was extremely
10 excited about this Taco Cabana concept he had seen?
11 A. He was.
12 Q. Had you ever seen a Taco Cabana at that point?
13 A. I had not.
14 Q. Now, before you signed that agreement, that April 17th
15 agreement, isn't it a fact that he showed you and Mr. Ziegler a
16 set of Taco Cabana plans?
17 A. I'm not really sure when he showed us a set of Taco Cabana
18 plans.
19 Like I said, he could have had them at that very
20 initial meeting. But for some reason I don't think they were
21 there because I don't remember discussing anything in terms of
22 the building layout.
23 Q. But you did look at the photographs?
24 A. We looked at photographs.
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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5
6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } October 13, 1988
10 } 9:30 a.m.
11
12 VOLUME XI
13
14 TRANSCRIPT OF TRIAL PROCEEDINGS
15 BEFORE
16 THE HONORABLE JOHN V. SINGLETON, JR.
17 AND A JURY
18 COURT REPORTER:
19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
21 HOUSTON, TEXAS 77002
22
23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[PHIL KENSINGER]

- 1 Q. What did he tell you? What did you learn from him?
2 A. Well, Jim came in to see me and he was the most
3 enthusiastic I had ever seen him. He was excited. And he told
4 me that he had just seen a concept in San Antonio, Texas that
5 was the most exciting thing he had ever seen in the food
6 business.
7 Q. Did you learn from him what concept that was he was
8 referring to?
9 A. Yes, I did. Jim told me — he said, "As you know, I've
10 been very successful in this business."
11 He had, I think, been involved in two or three prior
12 food ventures, all of which had turned out well.
13 He at that time was operating very successfully or had
14 operated — and I think he had sold his Chi-Chi's operation on
15 Richmond Avenue, which had been very successful.
16 He told me that he had seen the most exciting business
17 he had ever seen in his life. He said it was an unusual
18 concept, it was unique, and that he was going to copy it nut
19 for nut and bolt for bolt.
20 Q. Now, did he also tell you after he expressed his excitement
21 to you, did he suggest that you go over and look at Taco
22 Cabana?
23 A. Yes, he did.
24 Q. Did you do that?
25 A. Yes.

[65]

[PHIL KENSINGER]

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9 But I've learned as a landlord that the operation of a
10 food establishment, the successful operation of one, is a
11 combination of very small details, very carefully executed.
12 And I've found that the successful operators are very
13 immaculate in attending to these details.
14 By Mr. Gambrell:
15 Q. And do you believe it also includes the concept of how its
16 executed, its appearance and feel as well?
17 A. Yes. I think it's a combination. It's a total package of
18 good food and good service and a combination of things that go
19 together and make it.
20 Q. Had you, subsequent to the opening of Two Pesos, been in
21 any Two Pesos Restaurants?
22 A. Yes.
23 Q. What is your impression having been in Two Pesos and in
24 Taco Cabana in terms of the concept that each executes?
25 A. I think that Jim did exactly what he said. He did it nut

[69]

1 for nut and bolt for bolt.
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[70]

[THOMAS-JOSEPH NAVIN]

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15 Q. During any of these meetings were you shown photographs of
16 a Taco Cabana in San Antonio?
17 A. Yes, I was.
18 Q. How many photographs did you see?
19 A. Four.
20 Q. Were they exterior shots?
21 A. They were all exterior shots.
22 Q. Did you ever see any Taco Cabana plans?
23 A. No, I did not.
24 Q. And did you have any conversations with either of these
25 gentlemen about these photographs?

[82]

- 1 A. Yes, I did.
- 2 Q. What comments did they make to you about these
- 3 photographs?
- 4 Mr. Redano: Objection. Hearsay.
- 5 The court: I'll overrule that objection.
- 6 This is Blacketer and McDaniell, isn't it?
- 7 Mr. Delflache: yes.
- 8 The Court: Overrule the objection.
- 9 A. (Continuing) Mr. McDaniell said basically that they were
- 10 copying the Taco Cabana location out in San Antonio to —
- 11 well, they brought plans out and then photographs and said they
- 12 were copying the Taco Cabana out of San Antonio. They wanted a
- 13 like location or so forth or a like building to Taco Cabana.
- 14 And Mr. Blacketer agreed with that.
- 15 By Mr. Delflache:
- 16 Q. And you said they took plans out. They showed you their
- 17 own plans?
- 18 A. They showed me their own plans.
- 19 Q. And they pointed to Taco Cabana photographs?
- 20 A. Yes, they did.
- 21 Q. Did they indicate to you that they wanted that concept?
- 22 A. Yes, sir.
- 23 Q. Did they ask you to try to replicate anything on that
- 24 concept?
- 25 A. My quoting package was based on the photographs for the

- 1 neon light, the drive-through menu. There's a menu board [sic]
- 2 on the side.
- 3 Let's see. I'll tell you the photographs right now.
- 4 There's a photograph of the exterior signage, the main pile-on
- 5 sign.
- 6 There's a photograph of the drive-through window
- 7 signage, the prices and so forth.
- 8 There is a photograph of the drive-through, I guess,
- 9 to give me different heights of rows of neon I would have to
- 10 put on the exterior of the building.
- 11 And there's one head shot of the facade of the
- 12 building, I guess, where they all set out their garage doors
- 13 and so forth.
- 14 Q. And that was intended to show you where the neon lights
- 15 would be on Two Pesos?
- 16 A. No. This was Taco Cabana.
- 17 Q. I understand. But the purpose of the photographs was to
- 18 show you where they wanted the neon lights placed?
- 19 A. Yes.
- 20 Q. Did either Mr. McDaniell or Mr. Blacketer indicate anything
- 21 else to you about the concept and what their intentions were?
- 22 A. Well, they told me they wanted to go nationally with this
- 23 concept.
- 24 It was also very firm in their minds that I had to
- 25 finish all signage within four weeks.

1 And there would be five more locations. They
2 originally wanted a bid package for five locations in Houston
3 and the surrounding areas.

4 But, you know, we had to be able to finish totally
5 within four weeks. They had to do them as fast as they
6 possibly could.

7 Q. Did they indicate to you what their intentions were for the
8 Houston area with respect to these five restaurants?

9 A. Their intentions were putting in five restaurants as fast
10 as they could because Taco Cabana was not there at that point.
11 They had to get a foothold in Houston before Taco Cabana came.

12 Q. They told you that?

13 A. Yes, they did.

14 Q. In those words?

15 A. Exact words.
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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
October 14, 1988
9:30 a.m.

10 VOLUME XII
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS

13 BEFORE

14 THE HONORABLE JOHN V. SINGLETON, JR.
15

16 AND A JURY
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
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23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[PHILIP J. ROMANO]

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16 Q. Now, coming back to the trade dress thing, many people have
17 said that the name of a restaurant is enough to distinguish
18 it.

19 Do you believe that's true in the case of Fuddruckers
20 or in the case of Taco Cabana?

21 A. Well, the name has some validity. I can tell Chevrolet or
22 Buick without looking at the name Chevrolet or Buick on it.
23 It's important, but it's not how you identify things.

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[43]

[PHILIP J. ROMANO]

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24 Q. Let me turn, if I can now, to Two Pesos.

25 I'd like to talk about Two Pesos and its relation to

[47]

1 Taco Cabana.

2 Do you have an opinion on Two Pesos and whether or not
3 it constitutes a misappropriation of Taco Cabana's concept?

4 A. Yes, I do.

5 Q. What is that opinion, Mr. Romano?

6 A. I think it's a direct copy.

7 Q. And why principally do you see it as a copy? You've been
8 in Two Pesos as well, have you not?

9 A. Yes, I have.

10 Q. Now, I'd like to direct your attention, if I could, to
11 these two models, plaintiff's Exhibit 3 and 342. Perhaps you
12 can come down from the stand, if you like.

13 Perhaps you could briefly indicate to the jury what it
14 is and why it is you believe that Two Pesos constitutes a
15 misappropriation of their trade dress?

16 A. Well, to start off, they both look the same. They're
17 shaped the same. They look the same. When you're inside, they
18 feel the same. They have the same product.

19 Q. Tell me one thing, Mr. Romano: When you make a judgment or
20 when a consumer makes a judgment on a restaurant, do you ever
21 have the opportunity to look at them side by side like this, or
22 how do people normally see restaurants?

23 A. Well, I think they see it, again, by shape. I mean, you
24 could take the sign off of McDonald's and know it's a
25 McDonald's just by the shape of the place.

[48]

[GLENN WILLIAMS]

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20 Q. Now, let's turn, if we can, to the kitchen area,
21 plaintiff's Exhibit 445, if we could put that up. Perhaps we
22 could put it down below.

23 But let me direct your attention first to the
24 photographs, plaintiff's Exhibit 43 and plaintiff's Exhibit
25 334.

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1 Do you recognize plaintiff's Exhibit 43?

2 A. Yes.

3 Q. Is that a Taco Cabana kitchen?

4 A. This one here?

5 Q. Yes.

6 A. Yes.

7 Q. And the one above it, the Two Pesos' kitchen, could you
8 comment on those similarities and differences, if you will?

9 I'll also put before you plaintiff's Exhibit 445,
10 which is a Taco Cabana kitchen and food preparation area.

11 Perhaps you might explain 445, and then you can
12 comment on the photographs.

13 A. Okay. The coloring is not really unique, but apparently
14 the purple colors here are those places in which orders are
15 received. Here is the entry area where you can receive
16 orders. And, obviously, they're in this position on both
17 diagrams.

18 The "to go" window, which is out here, again, you see
19 the purple. This is a singular line through here.

20 The large pink area here are the toilet facilities.

21 The dark brown here being the dry storage areas. The offices.
22 I believe these are ice machines, the large areas here. Maybe
23 these are washers and dryers. I don't remember.

24 The blue areas being cold areas, walk-in coolers here,
25 and the ice machine here. There's the ice machine there.

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1 The green areas being prep areas, here, here, here and
2 here. Up here for the out prep, out prep here. Inside prep,
3 inside prep.

4 Q. By "out prep," you mean the out prep to the drive-through
5 area?

6 A. Yes. And the red lines being the principal cook line.

7 Q. Now, this particular cooking line here on the lower side of
8 445 and 446 is seen by the customer as he either orders or
9 picks up his food. Is that correct?

10 A. That's correct.

11 Q. But the one on the other side is on a partial wall. Is
12 that correct?

13 A. It's behind a full wall, yes.

14 Q. Can you see any part of that when you're ordering or when
15 you're standing on the side or what?

16 A. You may be able to see the edge of this equipment here.

17 Q. But generally the one you see most commonly is the one here
18 where they're preparing tortillas and things like that?

19 A. Yes.

20 Q. Where is the tortilla prep line?

21 A. It's the yellow part right here.

22 Q. Now, the purposes that these various pieces serve, Mr.
23 Williams, are those functions or purposes found in most
24 restaurants or are they unique to this restaurant or what?

25 A. Well, all of these things function but they're not

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1 necessarily a function of. They all come together and go
2 together to produce this menu. Obviously a sense of design
3 hasn't been changed that much since the onset of the business.
4 It's a good design, but it's certainly no where near the best
5 design or the only design.

6 Q. In terms of functions within a restaurant, every
7 restaurant, I guess, has certain basic functions, doesn't it?

8 A: Sure.

9 Q. It serves food?

10 A. Yeah. All of them have — generally speaking, from the
11 back door you have areas in which you can store the bulk food,
12 whether it be cold or no refrigeration. Then the dry storage.
13 They all have bulk ice machines. They all have preparation
14 areas.

15 Q. Do they normally have washer and dryers in them, Mr.
16 Williams?

17 A. Very few.

18 Q. In this particular one, in putting it together though, you
19 indicate there are other ways to do it.

20 I'd like to put in front of you a couple of sketches
21 marked plaintiff's Exhibits 499 and 500.

22 These two sketches you drew, did you not, Mr.
23 Williams?

24 A. I did.

25 Q. And in the interest of time, I asked you to draw them

1 before coming to court?

2 A. Right.

3 Q. I'd like for you to explain to the jury what they are and
4 how they relate to the layout of the various equipment in the
5 kitchen and the food preparation area particularly.

6 A. These orientations are the same. This is the rear of the
7 restaurant in each case.

8 Q. Now, I asked you, did I not, Mr. Williams, to look at that
9 layout of the kitchen and give a couple of suggestions as to
10 other ways you might organize the equipment to carry out the
11 various functions that you want and yet not have them related
12 or associated in the same way.

13 Now, with that in mind, have you colored them with
14 similar colors in order to carry out the same color pattern on
15 the various colored portions of the kitchen and food
16 preparation areas?

17 A. Yes, I have.

18 Q. Now, go on and explain 499, if you would.

19 A. In each of those alternate designs, I've moved the restroom
20 facilities from the entrance area to across the restaurant
21 closer to the seating area, which I feel is a better concept.

22 This design up here is more traditional, if you will,
23 a Taco Bell or McDonald's. Here's the straight line here in
24 which you come in and order against a straight line.

25 Everything flows parallel back towards the back and to the rear

1 door.

2 Q. Why is it better to have the restrooms across?

3 Is the front entrance to this restaurant in the same
4 place?

5 A. It's in the same position.

6 Q. Why is it better to have the restroom clear across on the
7 side of the restaurant?

8 A. Well, I think it causes a lot less confusion. It prevents
9 — makes people that come in use it for a restaurant and not
10 just a bathroom facility that you run in. You're obligated to
11 buy something.

12 And the other thing is — it really is — it just
13 kind of interferes with the flow of the whole restaurant. You
14 can see how this restaurant is more centered to all the food
15 prep.

16 Q. Now, looking down at PX-500 down below, how is that one
17 arranged in terms of the various purposes or functions of the
18 equipment?

19 A. Well, this one, again is — you have an ordering line,
20 which is kind of out of the restaurant dining area. It's over
21 to the side. I guess it's similar to doing it this way.
22 Instead of doing it at an angle, it's cut straight across where
23 you order here, pick up your food, and go out into the
24 restaurant area.

25 Q. Again, the restroom is on the far side of the restaurant

1 from the entrance door?

2 A. That's correct. And, again, the cooking line in each
3 instance has this wall that shields most of the kitchen so you
4 get —

5 Q. You get a feel for the restaurant?

6 A. — You get a feel for the restaurant.

7 Q. Then all the other functions are generally color coded to
8 show the same general functions that are shown in 445 and 446?

9 A. Yeah. They should all be to scale. I traced over these
10 models.

11 Q. Are the areas, the general areas in 499 and 500, about the
12 same as those in 445 and 446?

13 A. Yes, they are.

14 Q. I see. Now, does this exhaust the possibilities, or based
15 on your background and experience, are there a number of other
16 ways they might be arranged to be effective and yet not be a
17 copy of 445?

18 A. There are a number of other ways to arrange it.

19 Q. You can take your seat, again, Mr. Williams.

20 A. (Witness complies.)

21 Q. Now, since Taco Cabana — and you started being involved in
22 their design in Taco Cabana 1 and going through 4 or 5 — have
23 they stuck slavishly to everything, or have they made some
24 changes in the kitchen and the other parts of the restaurant?

25 A. They have made some changes; noticeably, the walk-in

1 cooler.

2 Q. Do you consider those changes to be major changes or minor
3 changes or what?

4 A. They're not major to the public because the public sees
5 what they've seen since Taco Cabana 2 all the way through.
6 Everything out front is the same.

7 Q. You do agree that the trade dress and image and impression
8 of Taco Cabana 2 on through 5 and up to the current time are
9 different than Taco Cabana 1, are they not?

10 A. That's correct.

11 Q. And that was a converted Dairy Queen?

12 A. Yes.

13 Q. And it doesn't even have an outside patio and
14 inside/outside dining room, does it?

15 A. No, it doesn't. It's covered over an asphalt parking lot.

16 Q. And it stayed that way. Do you understand that it had a
17 restriction as to what they could do to the building in that
18 area?

19 A. I'm not aware of that.

20 Q. Now, going to — perhaps you could come down and look
21 briefly at these two models and explain briefly to the jury, if
22 you would, what it is that got changed in Taco Cabana when they
23 built and orchestrated Two Pesos.

24 A. I think you're going to have to repeat the question.

25 Q. Well, looking at these models, perhaps you could explain to

1 the jury how Taco Cabana's layout and organization and
2 arrangement got changed in reaching the Two Pesos arrangement.

3 And I may have to sort of tilt these up for you a
4 little bit so the jury can see it.

5 A. Well, the only changes that I'm aware of is this wall line
6 now is straight, as you can see over here.

7 This area right here is slightly larger than this area
8 right here. They moved this line across. There's one
9 additional garage door out here since this is not cut off at an
10 angle. They've sort of enlarged it.

11 Q. They've enlarged this inside patio by one garage door?

12 A. It looks like it, yes.

13 Q. But is the entrance, the oblique entrance, the same as you
14 described to the jury a few minutes ago?

15 A. Yes.

16 Q. And has an oblique line, ordering line, parallel to it in a
17 similar way?

18 A. That's correct.

19 Q. And they pick up in the same area?

20 A. Yes. Here and here.

21 Q. And the preparation area that's visible from the front
22 ordering area is the same or different?

23 A. It's very, very similar.

24 Q. And in the back kitchen, I take it, it really looks very
25 similar to 445 and 446 that you discussed?

1 A. Yes.

2 Q. As a matter of fact, I will represent to you, Mr. Williams,
3 these are based on the Gessner Two Pesos store and Taco Cabana
4 5, which I believe is what the kitchen design in 445 and 446
5 is.

6 Now, in this area, are there other changes? Looking
7 at the outside of the building, the profile, do they appear to
8 give in your view the same curbstone appeal or opinion or view?

9 A. Yeah. They look like interlocking boxes. This Two Pesos
10 has a small sign for identification on this door here.

11 Q. Do you find the colors to be distinguishing features of the
12 trade dress, or how do you view that as a designer?

13 A. I view it both as hot Mexican colors, vivid colors to
14 attract people.

15 Q. And what about the awnings? In your view, do people see
16 awnings distinctly different, or do they get visual impressions
17 that are vague?

18 A. I get vague visual impressions. I mean, I realize they're
19 awnings. I couldn't tell you without seeing these models what
20 color those awnings are on either store.

21 Q. And you've looked at a number of Two Pesos, have you not,
22 Mr. Williams?

23 A. Yes.

24 Q. Now, in going in those, what was your impression of them as
25 opposed to Taco Cabana that you both were involved in designing

1 and have seen on many occasions?

2 A. Well, my impression is one of confusion. I think from my
3 experience in restaurants and restaurant designs, I feel that
4 the consumer can't help from being confused or automatically
5 assume they have to be one in [sic] the same thing.

6 Q. Now, in your impression or your experience, do people go to
7 eat in restaurants one right after another, in your experience?

8 Do they go to a Taco Cabana and then immediately go to
9 a Two Pesos?

10 How do people normally approach restaurants such as
11 these fast food restaurants?

12 A. I think most fast food restaurants would consider two to
13 three times a week a nice support level from a consumer and
14 particularly one with an ethnic menu. It may be less.

15 Q. And they go in one or the other and never see them side by
16 side, do they?

17 A. No.

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[GLENN WILLIAMS]

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2 Q. In your view, Mr. Williams, is there any question that
3 restaurants can come up with a variety of layouts, operations
4 and images that don't look like Taco Cabana but function quite
5 well?

6 A. Yes, I believe that.

7 Q. And do you see any reason why Two Pesos needed to copy it
8 in order to compete in the marketplace for fast food Mexican
9 customers?

10 A. No, other than it was just a real fast way to get in
11 business behind a proven success story.
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[170]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
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6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

) Civil Action
No. H-87-0026

) Houston, Texas
October 20, 1988
9:30 a.m.

10 VOLUME XVI
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS

13 BEFORE

14 THE HONORABLE JOHN V. SINGLETON, JR.

15 AND A JURY
16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
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23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[JAY DARLING]

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6 Q. In connection with the Two Pesos and Taco Cabana
7 restaurants, what in your view would be non-functional?
8 A. Well, I was in the courtroom when Mr. Brinker testified
9 that in his opinion plants and decor items were non-functional.
10 I'd have to agree with his assessment. Those two
11 items are not functional.
12 I really can't think of any others in a fast food
13 restaurant that would be considered non-functional.
14 Q. Based on your experience in fast food restaurants and your
15 study of the Taco Cabana and Two Pesos stores, have you formed
16 an opinion about how likely customers might be confused?
17 A. Yes, I have.
18 Q. And what is that opinion?
19 A. Well, you'll have to start with letting me tell you that
20 even in my Burger King restaurants, there are people who walk
21 in and ask for a Big Mac.
22 So I believe there's a certain level of the consumer
23 population that's always going to be a little bit confused.
24 By and large, I feel that the restaurants, because of
25 the signage and because of the color, really don't cause the

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1 average consumer to have any kind of confusion.
2 Q. Do you know of any actual confusion which has occurred
3 between Two Pesos and Taco Cabana?
4 A. No, I do not.
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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
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6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
November 7, 1988
1:30 p.m.

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11
12 TRANSCRIPT OF HEARING PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
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16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
22

23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

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8 The Court: Now, frankly, under the facts of this
9 case, I will have to conclude that the actions of Two Pesos was
10 deliberate — was willful in the sense it was deliberate.

11 I don't think there's any question about the fact
12 that Two Pesos deliberately attempted to copy Taco Cabana's
13 trade dress and the jury has found that there was a trade dress
14 and that it's protectable.

15 Under the facts of the case and listening to the
16 witnesses and judging the credibility myself, I can come to no
17 other conclusion than to find that Two Pesos' actions were
18 willful in the sense that it was deliberate.

19 I don't think it was necessarily unlawful. I
20 don't think it was immoral. But it was deliberate. It was a
21 deliberate act of attempting to and accomplishing copying Taco
22 Cabana's trade dress. So I have to go along that route.

23 Now, having said that, from what I've cursorily
24 read from your memorandum, Mr. Sutton, having said that, I'm
25 called upon to some way enhance the damages.

1 And then we've got the problem of attorneys'
2 fees, if any. So that's where I am.
3 Mr. Sutton: well, Your Honor, I would like to, of
4 course, respond to that both now and in writing, if I could,
5 because we only got their briefs this morning.
6 The Court: I understand. Fine.
7 Now, everything you filed insofar as I can
8 determine, there's nothing new. You urged the same thing
9 during the course of the trial.
10 Mr. Gambrell: I believe that's true, Your Honor.
11 The Court: In one way or another, every point of law
12 was introduced at trial. I know I couldn't find anything new.
13 Mr. Durkee: Well, I think what's new is the jury's
14 verdict because I think there are two issues that say that we
15 won.
16 The Court: What issue is that?
17 Mr. Durkee: No. 4.
18 The Court: No secondary meaning?
19 Mr. Durkee: No secondary meaning.
20 The Court: That's the mark.
21 Mr. Durkee: And No. 10, which said that the kitchen
22 and restaurant operating procedures are not a trade secret.
23 The Court: Are not a trade secret, right.
24 Mr. Durkee: So the only thing left is what's under
25 the open records act.

1 The Court: They're not a trade secret.
2 Well, we've already gone into the open records
3 act. That argument has already been made. I disagree with
4 it.
5 Mr. Durkee: I just want to point out that under —
6 the only thing that wasn't under the open records act, the jury
7 found not to be a trade secret.
8 Then the jury also found that there was no
9 secondary meaning.
10 The Court: In the Texas market.
11 Mr. Durkee: Which I think gives us — or should give
12 us a judgment.
13 The Court: But you don't find any cases on that.
14 Mr. Durkee: Your Honor, I —
15 Mr. Montalvo: Your Honor, the Fifth Circuit
16 specifically says that if a trade dress is found to be
17 inherently distinctive, it need not show secondary meaning.
18 That is the law of the Fifth Circuit.
19 The Court: I understand that. I understand that.
20 Mr. Durkee: The Fifth Circuit says it's a
21 presumption. It's a presumption under Rule 301 of the Rules of
22 Evidence that can be rebutted. I think the jury rebutted it,
23 and I think we did. I think that four is control.
24 The Court: Well, I don't want to make any judgment on
25 that at this time. I wondered about that, about what you were

1 going to say about that jury finding of no secondary meaning,
2 no secondary meaning in the Texas market. I'm going to have to
3 think about that.

4 But, basically, I think that when they find that
5 it is inherently distinctive, which they found it was, you
6 don't have to have secondary meaning. That's my understanding
7 of the case law.

8 Mr. Durkee: But we cite the Cecilian (spg) case that
9 says it's a presumption.

10 Mr. Gambrell: And there is no less than three Fifth
11 Circuit cases specifically saying it's not necessary,
12 regardless of what Cecilian says.

13 Mr. Durkee: Unless it's rebutted. I agree with
14 that.

15 But the other point, Your Honor, that I would
16 like to make is that on issue No. 3 concerning inherently
17 distinctive, there was no limitation in that about a particular
18 market. And it's fatally defective for that reason alone.

19 The Court: Well, I understand you're going to appeal
20 this. That I understand. I don't blame you.

21 But I'm faced with the jury's verdict. I'm faced
22 with my prospective of the evidence and the credibility of the
23 witnesses, which I have some serious doubt about some of them.

24 I'm certain that whatever judgment I enter,
25 you're probably going to want to stay the effect of the

1 judgment pending appeal. Am I correct about that? And I would
2 grant that. I would stay it pending appeal.

3 But I'm pretty well committed, unless there's
4 some way you can persuade me otherwise, as I said, that the act
5 of Two Pesos in this case was willful in the sense it was
6 deliberate. And that causes me to more than likely enhance the
7 jury verdict because under the Act, as I understand it, you can
8 do that if it was willful.

9 Mr. Gambrell: That's correct, Your Honor.

10 Mr. Durkee: No, Your Honor, I disagree with that.

11 Mr. Gambrell: Under local finding you can.

12 Mr. Durkee: The Act specifically says that it can
13 only be compensation. It cannot be a penalty.

14 The Court: I understand that.

15 Mr. Durkee: Mr. Gambrell's brief — I did read it
16 about an hour ago, and it talks about punishment. And that's
17 specifically prohibited by the Act.

18 The Court: I understand that whatever I do is not
19 designed as punishment. It's merely compensation for the
20 willful act.

21 Mr. Durkee: Right.

22 Mr. Gambrell: That's correct.

23 Mr. Sutton: I would disagree with that, Your Honor.
24 I think it would be compensation to the plaintiff for the
25 activity of the defendant.

1 The Court: Right.

2 Mr. Sutton: And here, we would point out, that there
3 were no actual damages as we've argued in our brief.

4 The Court: Well, the jury actually found actual
5 damages.

6 Mr. Sutton: Yes. And I would point out to you in Mr.
7 Gambrell's briefing —

8 The Court: The jury found actual damages.

9 Mr. Sutton: Well, I understand that, Your Honor.

10 Mr. Gambrell: With their theory of tripling or
11 enhancing damages, Your Honor, you can never do it because
12 their theory is if you enhance it, it's penalizing and,
13 therefore, you can't do it.

14 It's obvious that it's compensation for the
15 willfulness and deliberateness of these plaintiffs.

16 Mr. Sutton: Mr. Gambrell's brief did not in any place
17 point out where it was inadequate. It did not point that out
18 anywhere.

19 The Court: You mean where the amount found by the
20 jury was inadequate?

21 Mr. Sutton: Exactly, Your Honor. That's what it's
22 supposed to be for. And I think the terminology that you're
23 using, that Two Pesos' actions were deliberate —

24 The Court: Willful in the sense it was deliberate.

25 Mr. Sutton: Correct. But deliberate, I think as you

1 recognize, does not equate to any particular bad activity here.

2 The Court: It was deliberate in the sense that it was
3 deliberately done. And since it was deliberately done, there's
4 no question from the facts in the case that it has caused
5 damages to Taco Cabana.

6 Mr. Sutton: But I would like to point out too, Your
7 Honor, that in the sense of Two Pesos' activities being
8 something — did they know that what they were doing was going
9 to be an infringement or not? I think you —

10 The Court: The reason, Mr. Sutton, they thought that
11 is because, according to the witnesses and according to Mr.
12 McDermott himself, in the restaurant business there is no such
13 thing as trade dress. That's what your witnesses said.

14 Mr. Sutton: I think it goes further than that, Your
15 Honor.

16 The Court: That's what they said, that they didn't
17 think — and Mr. Darling, your man from Burger King, said the
18 same thing. He didn't think there was any such thing in the
19 restaurant business as trade dress or that there was any such
20 thing as copying, illegally copying the trade dress.

21 Mr. Sutton: But I think it's more than that, Your
22 Honor.

23 They also indicated that they were trying to keep
24 a comfortable distance from Taco Cabana, and they did that in a
25 lot of ways. They didn't copy nut for nut and bolt for bolt,

1 the idea.

2 Mr. Gambrell: They didn't show that, Mr. Sutton,
3 that's perhaps true. But very rarely is a copier going to
4 slavishly copy every point.

5 The fact of the matter is the jury determined
6 that they took the trade dress that is protectable to Taco
7 Cabana.

8 The Court: I'm stuck with the jury's finding that
9 there was trade dress and it was protectable and that you had
10 trade secrets —

11 Mr. Sutton: I understand that, Your Honor. But I
12 would also like to —

13 The Court: — And that you misappropriated two of the
14 trade secrets.

15 Mr. Sutton: I would also like to make the point that
16 in the sense of willfulness, this is a lot different from the
17 standpoint of a situation where you have a registered trademark
18 and a defendant can look —

19 The Court: But is it any different?

20 Mr. Sutton: Pardon?

21 The Court: It's not any different. Once you find
22 that the trade dress is protectable, it has the same legal
23 meaning as a registered trademark.

24 Mr. Gambrell: Exactly.

25 Mr. Sutton: But not at the point in time where you're

1 adopting what you're doing.

2 The Court: When you take sophisticated people, as
3 these people were — they weren't novices or just
4 Johnny-come-latelys.

5 Mr. Gambrell: Mr. McDermott was proud of his
6 experience in that area.

7 The Court: They're sophisticated people in the
8 restaurant business and in this area of the fast food
9 restaurant business.

10 I'm just — I think the evidence is too
11 overwhelming in my mind. And the witnesses, listening to the
12 witnesses, observing their credibility, indicates to me that
13 what they did, they did on purpose, they did it deliberately
14 and they did it because it was a good thing, and they tried to
15 appropriate it for their own use. There's no question about
16 that.

17 Mr. Gambrell: Apropos, Your Honor, the point you
18 make, willful as not being necessarily bad, I mean in a
19 pejorative sense. In the Amwick case (spg) it's important to
20 note that the Lanamac as opposed to criminal law determines the
21 term "willfulness" does not necessitate prior finding that
22 defendant either intended to steal plaintiff's trademark or
23 produce a counterfeit.

24 It merely says that it can be met by showing
25 simply that the infringement was not accidental and it was done

1 knowingly and with disregard of the rights of the markholder.

2 That's exactly what willfulness is about as a
3 finding.

4 The Court: Well, I understand all that. But I still
5 do not know what type of judgment to enter.

6 Mr. Sutton: Now, we'd like to file a brief in
7 response to their motion, Your Honor.

8 The Court: I'm going to have to study that and any
9 response you want to make.

10 Everything I cursorily read that you filed was
11 rehashing of points that I've already ruled on except possibly
12 this secondary meaning situation, which I haven't even
13 studied. I apparently must have overlooked it.

14 Mr. Gambrell: We have responded to that, Your Honor.

15 The Court: I don't remember you making any point.
16 I'm not surprised that you didn't.

17 Mr. Durkee: No, I did, Your Honor. In fact, during
18 the jury charge I specifically said that that inherent
19 distinction is not a jury issue and that it was a presumption.

20 Mr. Gambrell: I think our response to that motion,
21 Your Honor, deals clearly with Fifth Circuit cases that do not
22 require those to be —

23 The Court: I'd like to get this thing over with. I
24 don't want it to hang on. I'm not one that likes to sit on
25 these and ponder them. I learned years ago it doesn't get any

1 easier. I want to get rid of it. I want to enter some
2 judgment.

3 I thought it fair to tell you where I was coming
4 from.

5 Mr. Durkee: We appreciate it.

6 Mr. Gambrell: Your Honor, the reason we suggested the
7 approach on attorneys' fees is that it seemed to us to decide
8 if attorneys' fees should be given and then we could decide at
9 a short hearing —

10 The Court: I have to decide if those fees are going
11 to be given first. If I decide that, I'll have to have some
12 hearing about the reasonableness of attorneys' fees other than
13 just dreamed up.

14 Mr. Sutton: Your Honor, I would like to make just two
15 more points in the willfulness area.

16 Here I think it should be judged or thought of
17 from the standpoint too of back in the time frame of when the
18 appearance of Two Pesos was adopted, did Two Pesos know that
19 that trade dress, that appearance, was protectable?

20 I would point out to the court, too, about in
21 terms of just drafting the jury charge and the charge on
22 functionality, the difficulty there, I think, shows that this
23 is an area of the law that's not crisp, that is not clear.

24 The Court: I understand that, Mr. Sutton. And you're
25 correct about that.

1 But I get back to the fact that I'm not dealing
2 with novices. I'm dealing, in this case, with very
3 sophisticated businessmen in this area, and they knew that they
4 were copying Taco Cabana's trade dress. They knew it. You
5 can't put blinders on. Everything has a little common sense
6 attached to it.

7 And the clincher to me as a trial judge was when
8 I took the jury on a jury view.

9 I had never been inside either one of these
10 restaurants. The similarity is overwhelming in every aspect,
11 every single aspect of the restaurant. There is not one that
12 similarity does not overwhelm. And the conclusion is obvious
13 that Taco Cabana got there first and Two Pesos copied them.

14 That was my impression and apparently the jury's
15 impression too because they were pretty adamant about that
16 situation themselves.

17 So that's where I'm going. That's where I'm
18 coming from and that's ultimately where I'm going to go.

19 When you get down to the details of the
20 injunction, I do not know where to go. I would think you and
21 ~~your clients~~ ought to be able to work out something in between
22 demolishing and a sign.

23 Do you understand what I'm saying?

24 Mr. Gambrell: That's probably the far corner of the
25 two proposals.

[17]

1 The Court: It has got to be something reasonable
2 that's in between that.

3 I'm not interested in putting Two Pesos out of
4 business. I don't think the facts of this case justify it.

5 There's a legitimate place for these two
6 establishments in the same niche of business to compete with
7 each other without the identity of the appearance.

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[18]

The following citations represent a sampling of the trial testimony in which the court, Taco Cabana's counsel and several witnesses misleadingly testified to the Taco Cabana concept in a way that either overtly or implicitly suggested it was protectable in and of itself.

T 9/26, 6, ll. 20-25

T 9/27, 3, ll. 20-25
4, ll. 15-23
5, ll. 9-25
6, ll. 1-13
8, ll. 15-22
9, ll. 5-10
11, ll. 12-25
12, ll. 1-18
13, ll. 12-17
14, ll. 14-18
15, ll. 1-23
20, ll. 2-20
21, ll. 1-6, 20-25
22, ll. 1-10
71, ll. 3-25
72, ll. 1-22
74, ll. 4-17, 22-25
75, ll. 1-11
78, ll. 7-25
79, ll. 1-17, 25
80, ll. 1-11
84, ll. 24-25
85, ll. 1-20

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86, ll. 3-18, 23-25
87, ll. 1-24
126, ll. 11-15
127, ll. 11-25
128, ll. 1-7
130, ll. 24-25
131, ll. 1-7
142, ll. 16-25
143, ll. 1-18
145, ll. 22-24

T 9/28, 66, l. 25
67, ll. 1-2, 23-25
68, ll. 1-2
124, ll. 20-25
125, ll. 1-5, 14-25
132, ll. 11-16
136, ll. 9-25
137, ll. 1-25
138, ll. 1-25
139, ll. 1-25
140, ll. 1-17
146, ll. 2-7

T 9/29, 26, ll. 19-25
27, ll. 1-24
30, ll. 14-15
33, ll. 3-25
34, ll. 1-22
51, ll. 14-25

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T 10/3, 85, ll. 3-25
86, ll. 1-25
87, ll. 1-10

T 10/4, 173, ll. 9-13

T 10/5, 15, ll. 18-22
16, ll. 20-25
25, ll. 22-33
133, ll. 9-15
136, ll. 13-16, 18-21
137, ll. 5-18, 23-25
138, ll. 1-7, 22-25

T 10/6, 53, ll. 18-25
56, ll. 6-9
61, ll. 21-25
62, ll. 1-25
63, ll. 1-25
64, l. 1
136, ll. 18-22
139, ll. 15-21
147, ll. 16-23

T 10/7 8, ll. 2-9
9, ll. 1-5, 24-25
10, ll. 1-12
12, ll. 16-22
26, ll. 4-8
111, ll. 7-13
112, ll. 6-9

133, ll. 23-25
134, l. 1
147, ll. 2-12
188, ll. 3-25
189, ll. 9-11, 25
190, ll. 1-5
191, ll. 6-9
198, ll. 2-11

T 10/13, 28, ll. 4-7
29, ll. 2-8
30, ll. 12-25
31, ll. 1-13
34, ll. 10-25
35, ll. 1-25
36, ll. 1-14
38, ll. 1-22
39, ll. 1-19

T 10/14, 62, ll. 5-25
63, ll. 1-19
64, ll. 1-10
65, ll. 7-25
66, ll. 1-25
67, ll. 1-25
68, ll. 18-24
69, ll. 10-21
105, ll. 4-25
106, ll. 21-25
107, ll. 1-25
108, ll. 1-25

109, ll. 1-25
111, ll. 11-25
112, ll. 1-25
113, ll. 1-25
170, ll. 24-25
171, ll. 1-4

T 10/17,

22, ll. 15-19
23, ll. 11-23
66, ll. 12-14

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TACO CABANA

TRADE DRESS AGREEMENT

This Agreement is entered into by and between TACO CABANA #1, INC., TACO CABANA #3, INC., TACO CABANA #5, INC., TACO CABANA #6, INC., TACO CABANA #8, INC. (collectively the "M Group"), TACO CABANA #2, INC., TACO CABANA #4, INC., TACO CABANA #7, INC., TACO CABANA #9, INC. (collectively the "F Group"), and TACO CABANA INTERNATIONAL, INC. ("International").

WHEREAS, ownership of the chain of restaurants known as the "Taco Cabana Restaurants" is being divided between the M Group and the F Group, the parties desire sufficient formal controls and agreements to be implemented to insure that the quality expectations of customers are fully met and to protect the trade dress and other proprietary rights of the Taco Cabana chain of restaurants and to formalize their agreements concerning these matters, they agree, subject to any right which may be held by any unrelated third party lessor of the parties hereto to prevent the change of building appearance or decor, as follows:

1. LICENSE The M Group and the F Group each hereby grant a limited license to the other to use the trade dress the other is currently using to the limited extent permitted herein subject to each licensee party maintaining the quality of its goods and services at least equal to the quality of its current goods and services.

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2. COLOR. Each Group is entitled to use and continue using the color pink including any shade of pink and/or any other color as a prominent feature of its trade dress.

3. EXISTING BUILDINGS. Each Group may change, but is not required to change, the appearance of any existing restaurant. Each Group shall be given possession of the plans and specifications of the Taco Cabana restaurants owned by such Group if such plans and specifications are available to or in the possession of any member of either Group.

4. FUTURE CONSTRUCTION. Subject to quality being maintained as set forth in Part 1 herein any future restaurant of the F Group or which is licensed by the F Group may use any or all of the current trade dress of the existing F Group Taco Cabana restaurants. Any future restaurant which is owned by the M Group or which is licensed by the M Group may use any or all of the current trade dress of the existing M Group Taco Cabana restaurants. The F Group and the M Group each agree to use reasonable efforts to modify their trade dress for their respective future restaurants sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind.

5. TWO PESOS LITIGATION. The M Group and the F Group hereby assign to International any and all rights they may have against the business known as "Two Pesos" and its successors in Houston, Texas, or any other city for injunctive relief and/or damages for infringement of their trade dress, the Taco Cabana trade dress and all other "Taco Cabana" intangible proprietary

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interests and hereby assign any and all such rights as they may have against any other persons or entities which may be jointly liable with Two Pesos for such acts or may have directed, participated in or profited from such acts of Two Pesos. International will take such action in this matter as it believes to be warranted.

6. The language of this Agreement shall be construed according to its fair meaning and not for or against any party. This is the entire agreement with respect to the trade dress of the Taco Cabana restaurants and it may only be amended by written agreement, shall be construed under the laws of the State of Texas, and inures to the benefit of the parties, successors and assigns.

IN WITNESS HEREOF, the undersigned has set forth their respective signatures.

TACO CABANA #1, INC.

By: _____

TACO CABANA #3, INC.

By: _____

TACO CABANA #5, INC.

By: _____

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TACO CABANA #6, INC.

By: _____

TACO CABANA #8, INC.

By: _____

TACO CABANA #2, INC.

By: _____

TACO CABANA #4, INC.

By: _____

TACO CABANA #7, INC.

By: _____

TACO CABANA #9, INC.

By: _____

TACO CABANA
INTERNATIONAL, INC.

By: _____

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